National Energy Board | Office national de l'énergie

ANNUAL REPORT 2008
TO PARLIAMENT

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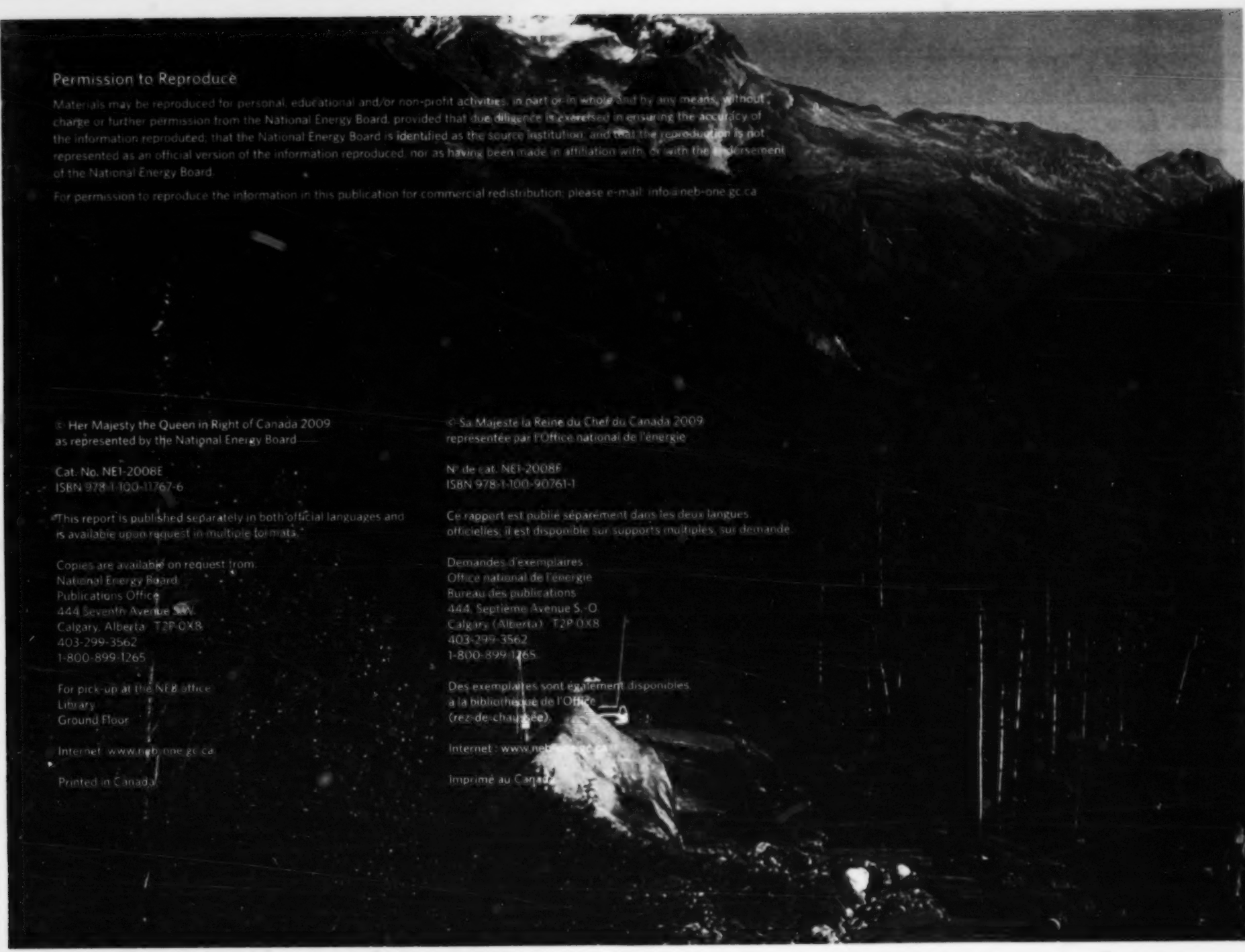

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Office of the Chair | Bureau du président

16 March 2009

The Honourable Lisa Raitt P.C., M.P.
Minister of Natural Resources Canada
580 Booth Street, 21st Floor
Ottawa, Ontario
K1A 0E4

Dear Minister:

Annual Report 2008

I am pleased to submit the Annual Report of the National Energy Board for the year ending 31 December 2008, in accordance with the provisions of Section 133 of the *National Energy Board Act*, R.S.C. 1985, c. N-7.

Yours truly,

Gaétan Caron
Chair and CEO

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Table of Contents
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2 iStockphoto
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4 Shane Richardson, NEB
5 Masterfile
6 Marc Pauze, NEB
7 Wes Elliot, NEB
8 Masterfile
9 Laura Randall, NEB
10 Sandra Martindale, NEB
12 Marc Pauze, NEB
13 Canaport LNG
16 Marc Pauze, NEB
17 Erin Doerffer, NEB
18 Paul Lackhoff, NEB
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20 Middle column - Ken Paulson, NEB
Right column - iStockphoto
21 Left column - NEB photo
Right column - Sandra Martindale, NEB
23 iStockphoto
24 Marc Thibaudeau, NEB
25 Left photo - Marc Pauzé, NEB
Middle photo - Wes Elliot, NEB
Right photo - NEB Photo
26 Background photo - Christy Wickenheiser, NEB
Top inset photo - Lauren Hopkins, NEB
Middle inset photo - Andrew Cameron, NEB
Bottom inset photo - Blair Inkster, NEB
27 Top inset photo - Blair Inkster, NEB
Middle inset photo - Marc Pauzé, NEB
Bottom inset photo - Marc Pauze, NEB
29 Wes Elliot, NEB
31 Ken Fortin, NEB
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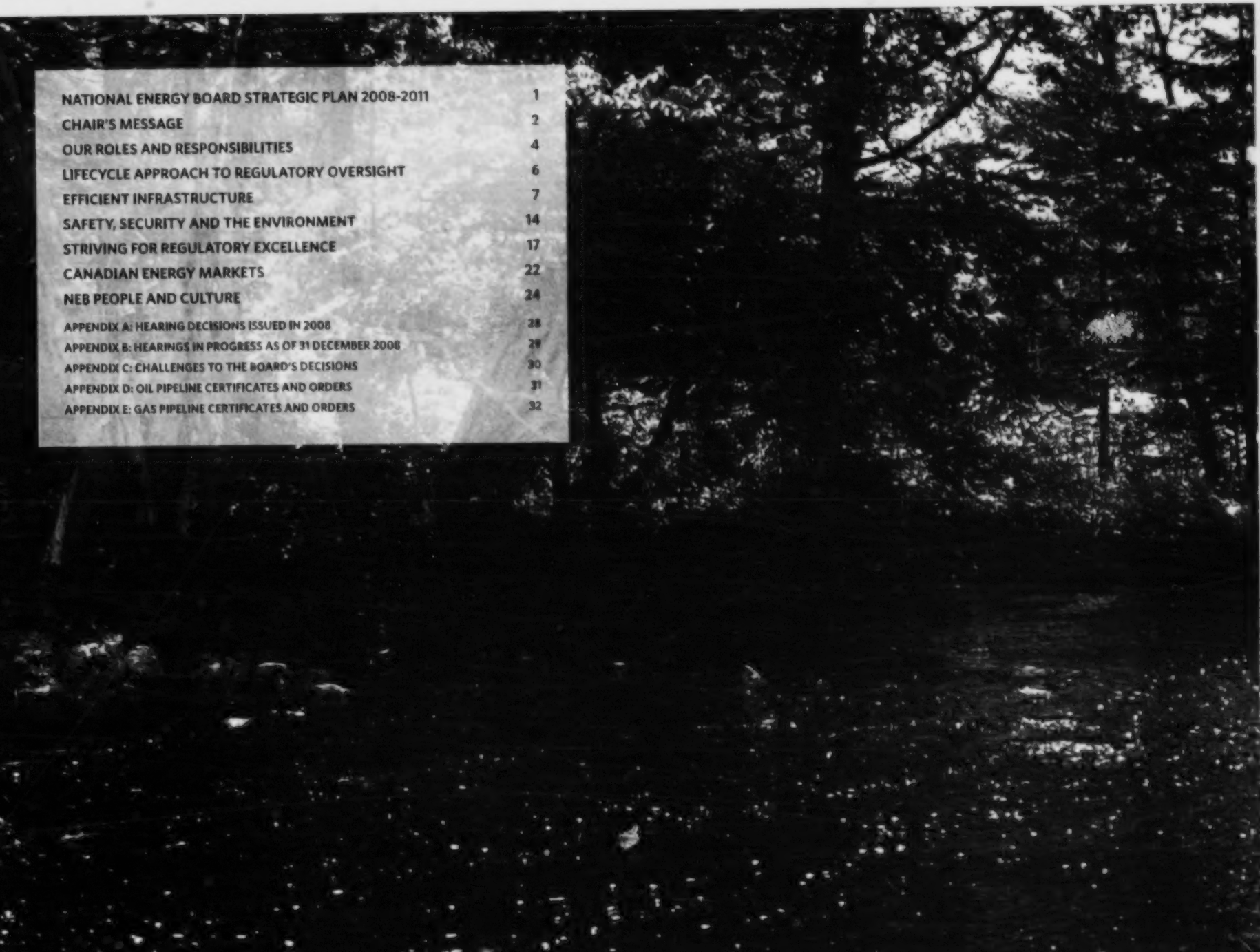


NATIONAL ENERGY BOARD STRATEGIC PLAN 2008-2011	1
CHAIR'S MESSAGE	2
OUR ROLES AND RESPONSIBILITIES	4
LIFECYCLE APPROACH TO REGULATORY OVERSIGHT	6
EFFICIENT INFRASTRUCTURE	7
SAFETY, SECURITY AND THE ENVIRONMENT	14
STRIVING FOR REGULATORY EXCELLENCE	17
CANADIAN ENERGY MARKETS	22
NEB PEOPLE AND CULTURE	24
APPENDIX A: HEARING DECISIONS ISSUED IN 2008	28
APPENDIX B: HEARINGS IN PROGRESS AS OF 31 DECEMBER 2008	29
APPENDIX C: CHALLENGES TO THE BOARD'S DECISIONS	30
APPENDIX D: OIL PIPELINE CERTIFICATES AND ORDERS	31
APPENDIX E: GAS PIPELINE CERTIFICATES AND ORDERS	32

National Energy Board Strategic Plan 2008-2011

Vision

The NEB is an active, effective and knowledgeable partner in the responsible development of Canada's energy sector for the benefit of Canadians.

Purpose

We promote safety and security, environmental protection and efficient energy infrastructure and markets in the Canadian public interest[1] within the mandate set by Parliament in the regulation of pipelines, energy development and trade.

Values

At the NEB we strive for excellence in all that we do. Excellence at the NEB is driven by organizational and personal commitment to three key corporate values:

- **Integrity:** ***We are fair, transparent, and respectful***
- **Regulatory Leadership:** ***We are responsive, proactive and innovative***
- **Accountability:** ***We support and hold each other accountable to deliver timely, high quality results in the Canadian public interest***

Strategies

- **We seek partnerships for common objectives**
- **We engage Canadians**
- **We create and adopt best practices**

To meet our Purpose, we operate within a framework of five integrated goals:

Goal 1

NEB-regulated facilities and activities are safe and secure, and are perceived to be so.

Goal 2

NEB-regulated facilities are built and operated in a manner that protects the environment and respects the rights of those affected.

Goal 3

Canadians benefit from efficient energy infrastructure and markets.

Goal 4

The NEB fulfills its mandate with the benefit of effective public engagement.

Goal 5

The NEB delivers quality outcomes through innovative leadership and effective support processes.

[1] The public interest is inclusive of all Canadians and refers to a balance of economic, environmental and social interests that change as society's values and preferences evolve over time. As a regulator, the Board must estimate the overall public good a project may create and its potential negative aspects, weigh its various impacts, and make a decision.

Chair's Message

2008 was an exciting year at the NEB. It was a year of challenges and opportunities; a year of renewal, innovation and improvement; a year that can best be characterised as intense, volatile, and successful. Intense because of high work load; volatile because of energy market conditions; and successful because we delivered on our mandate in extremely challenging circumstances.

In 2008 we saw more applications and more hearing days than any other year in NEB history. In addition to the heavy applications workload, we oversaw an extremely busy pipeline construction year.

All this activity took place during a year that will most likely be remembered for the extreme volatility that characterised energy markets across the globe. Oil hit a record high of US $147 per barrel in July, but then retreated to a low of $30 per barrel in December.

However, we were able to meet all but one of our service standards for reviewing applications. The Board gave each facility application careful consideration, guided by the basic principles of sustainable development; that is, all environmental, social, and economic considerations are taken into account, together, when making a decision.

We also took time to innovate and improve the way we do business. The Board provides regulatory oversight for the entire lifespan of the facilities under its jurisdiction. We undertook a number of new initiatives to improve our processes and support our commitment to provide safe and secure delivery of energy to Canadians in a way that protects the environment, and the rights of those affected.

For example, through our Land Matters Consultation Initiative, we created a forum where more than 400 citizens from communities across Canada were able to share ideas on how to improve the way in which land matters are incorporated into the Board's public interest considerations.

In addition, we began to engage Environmental Non-Government Organizations so that we could explore ways to improve the environmental outcomes associated with NEB regulated projects.

We also continued our work to update and modernize regulations and streamline regulatory processes. Of particular note is the work we did with the Major Projects Management Office to improve the efficiency and effectiveness of the federal regulatory review process. I am proud of the contributions our staff have made to this initiative, and in particular, the work that was done to formalize an Enhanced Aboriginal Engagement process to support our public review of proposed facilities.

We are concerned with the increased number of incidents at NEB regulated facilities in 2008, and have responded with an increased number of inspections and audits. The increase is partly the result of the rapid pace of construction that occurred during 2008. Safety is, and always will be, of paramount concern to the NEB. We are always asking ourselves how we, as a Regulator, can help to prevent, reduce and ultimately eliminate these events.

We did not undertake this work in isolation. We continued to foster partnerships with industry, industry associations, and other government and regulatory agencies to share knowledge and best

practices to promote safety and security. Through our involvement with the Canadian Standards Association (CSA) we have contributed to the development of a new Security Management Standard for the Petroleum and Natural Gas industry, a first of its kind in North America. We have established Security as one of our core program areas. In addition to security inspections during pipeline operation, we have also begun to conduct security inspections during construction.

Partnership and collaboration also helped us set the stage for continually improving regulatory processes. For example, we signed a memorandum of understanding (MOU) with the First Nations Tax Commission in April 2008 in which we agreed to share knowledge and best practices. The MOU we signed with the Environmental Assessment Office of British Columbia in December is just one of many that will improve coordination, reduce overlap and contribute to a whole-of-government approach to energy regulation.

The many successes and accomplishments of the Board in 2008 would not be possible without the contributions and commitment of the people who work at the NEB. Our people are our greatest asset and we have worked hard to develop a positive and sustainable work environment.

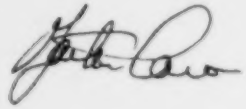
In 2008, the NEB was recognized as one of Canada's Top 100 Employers, one of Alberta's Top 40 employers, and as one of Canada's Top 20 Family Friendly workplaces. The Public Service Commission also recognised us as a top performer among small government agencies for our hiring practices. I am also proud to say, for the second year running, we received an award from a Canadian magazine for Best Annual Report in the public service category.

This spirit of excellence is also evident in our employee's community spirit. Each year a dedicated group of individuals coordinates the charitable United Way/Healthpartners campaign. In 2008, we received the Spirit of Gold Award of Excellence, for our outstanding contribution to the 2007 United Way campaign. In 2008, we did even better, raising just over $72 000 for people in need in our community.

We said goodbye to two Board members in 2008. In May, Chief Strater Crowfoot left the Board to work for a leading Aboriginal organization. In his two years with the NEB, his desire to be inclusive helped the Board connect with a broader range of Canadians, and we wish him well in his new position. Then in November, Dr. John Bulger retired after 10 years with the Board. Dr. Bulger was a well respected member of the Board, whose dedication to the public interest will always be remembered through his many wise contributions.

Although we said goodbye to two Board Members, we welcomed three new members in December. Ms. Lyne Mercier from Montreal, Québec, was appointed as a permanent member. Ms. Sara Jane Snook from Halifax, Nova Scotia, and Mr. Bob Vergette from Pender Island, British Columbia were appointed as temporary members. We are pleased to count them as part of our team.

As we head into 2009, I am confident the NEB will continue to achieve success thanks to the knowledge and experience of our Board members and to the talent of the formidable group of employees that I have the privilege of working with everyday.



GAÉTAN CARON
Chair and CEO, National Energy Board

Our Roles And Responsibilities

The National Energy Board (NEB or the Board) is an independent federal agency that promotes safety and security, environmental protection and economic efficiency in the Canadian public interest within the mandate set by Parliament for the regulation of pipelines, energy development and trade. Established in 1959, the Board is funded approximately 90 per cent by the energy industry it regulates and 10 per cent by government. The Board reports to Parliament through the Minister of Natural Resources.

The NEB regulates more than 45 000 kilometres of pipelines across Canada. In 2008, these pipelines shipped over $127[2] billion worth of crude oil, petroleum products, natural gas liquids and natural gas at an estimated transportation cost of $4.4 billion. NEB-regulated international power lines transported $3 billion to $5 billion of electricity. This demonstrates the huge economic value that pipeline and power transmission systems bring to Canadians.

The main functions of the NEB are established in the *National Energy Board Act* (NEB Act) and include regulating:

- The construction and operation of pipelines that cross international or provincial borders, as well as pipeline tolls and tariffs;
- The construction and operation of international power lines and designated inter-provincial power lines; and,
- Natural gas imports and exports, crude oil, natural gas liquids, and electricity exports.

Additionally, the Board has regulatory responsibilities under the *Canada Oil and Gas Operations Act* (COGO Act) and under certain provisions of the *Canada Petroleum Resources Act* (CPR Act) for crude oil and natural gas exploration and production on frontier lands and certain areas off Canada's east, west and arctic coasts.

The NEB has environmental responsibilities under the *Canadian Environmental Assessment Act* (CEA Act) and the *Mackenzie Valley Resource Management Act*. In addition, certain Board inspectors are appointed Health and Safety Officers by the Minister of Labour to administer Part II of the *Canada Labour Code* as it applies to facilities and activities regulated by the Board.

The Board also monitors aspects of energy supply, demand, production, development and trade that fall within the jurisdiction of the federal government (see Canadian Energy Markets, p. 22).

More information on the background and operations of the NEB may be found on the Board's website, www.neb-one.gc.ca.

[2] This value is derived from annual throughputs and the weighted average yearly commodity price.

Cost Recovery

The NEB is authorized to recover most of the costs of its operations from the companies it regulates. Financial statements for cost recovery purposes are prepared annually and audited by the Office of the Auditor General. The audited statements and the Auditor General's report may be viewed on the NEB's website at Reports > Auditor's Reports and NEB Financial Statements.

Risk-Based Lifecycle

The NEB developed its risk-based Lifecycle approach in accordance with these principles:

- Companies are accountable for their own performance.
- The NEB manages its resources to ensure that regulatory oversight is prioritized according to risk.
- The NEB regulates according to risk throughout the lifecycle of facilities within its jurisdiction.
- The degree of regulatory oversight is directly linked to company performance.
- Risk is considered from the perspective of risk to NEB regulated activities.

Lifecycle Approach to Regulatory Oversight

In 2008, the NEB continued to develop tools and processes that will help identify the areas of most risk for the companies, projects and activities it regulates.

As a Canadian energy regulator we are responsible for ensuring that energy supplies are connected to consumers in a safe and responsible way, and in a way that protects the environment, and the rights of those affected.

Using a goal-oriented approach to regulation, the Board defines desired outcomes, but allows companies to decide how best to achieve these outcomes. This approach allows each company to develop innovative and cost-effective programs that make the most sense in their particular circumstances.

The Board's regulatory oversight role applies to the entire lifecycle of a pipeline or facility, from application to abandonment (see reverse).

Project-related risk is initially evaluated at the application phase when the Board is considering potential issues or concerns related to the project. The risk-based lifecycle approach enables us to adjust our regulatory processes to fit the scope and risk of the applications before us.

Companies are expected to use management systems that clearly document how they have identified and managed risk throughout the facility's lifecycle. Through compliance monitoring, we are able to assess the level of risk associated with a facility, as well as a company's performance in managing that risk during construction, operation and abandonment. This approach allows us to focus our compliance resources on companies that will benefit the most from regulatory oversight.

Some of the tools introduced in 2008, such as the Online Application System and pre-construction evaluations, support the risk-based lifecycle approach by allowing us to incorporate project risk assessment and other performance evaluation activities into our compliance planning process.

Planning / Public Hearing

The NEB's filing manual guides a company's project planning activities by outlining the information required for an application.

Companies can also request a pre-application meeting with NEB staff to better understand application processes and regulatory requirements.

Once a facilities application is received, the Board reviews the economic, technical and financial feasibility, as well as the environmental and socio-economic impacts of the project.

Applicants must demonstrate that they engaged and consulted with the people and Aboriginal groups most likely to be impacted by their project.

A public hearing may be held for large or complex projects. An approved application will include conditions that must be met by the company.

Construction

The NEB will monitor company compliance of the conditions of approval through inspections of construction activities and by reviewing the company's post-construction monitoring reports.

NEB inspectors also monitor a company's mitigation activities for success in restoring the land post construction.

In 2008, the NEB expanded its compliance activities to include security inspections and pre-construction evaluations at the construction phase of a major pipeline.

Pre-construction evaluations assess the readiness of the company to implement their respective programs and commitments to the approval.

Operation

NEB-regulated pipeline companies must comply with the *Pipeline Crossing Regulations 1999*, *Onshore Pipeline Regulations*, *Processing Plant Regulations*, and *Canada Labour Code*, as well as the conditions of approval.

To evaluate performance or compliance, the NEB may audit a company's programs and/or inspect a company's construction and operation activities. Should an incident occur, such as a pipeline rupture or injury, the NEB will investigate the incident and report on the results.

The NEB expects companies to remediate the effects resulting from a pipeline leak or rupture as well as put in place preventative actions to prevent future occurrences.

The NEB expects companies to have effective emergency programs and pipeline integrity practices to ensure safe development for those who live and work around regulated pipelines.

Deactivation, Decommission or Abandonment

If a company wants to abandon or decommission a facility, it must submit an application to the NEB including an environmental and socio-economic assessment.

The NEB will assess the application and may conduct a public hearing.

If abandonment is approved, the Board may impose conditions and inspect the abandonment activities.

An abandonment order does not come into effect until all conditions of the order have been met.

Efficient Infrastructure

The ability of the pipeline transportation system to deliver natural gas, natural gas liquids (NGLs), crude oil, and petroleum products is critical to Canada's economy. Canadians depend on this system for a safe, reliable, and efficient energy supply.

A pipeline system needs enough capacity to accommodate the needs of the shippers. The *2008 Canadian Pipeline Transportation System Assessment Report* examined how well the pipeline network was working in 2007, and if the Board was achieving its goal of ensuring Canadians benefit from efficient energy infrastructure and markets.

The report found that the pipeline transportation systems regulated by the NEB functioned efficiently and effectively. However, the report noted that some oil pipelines in Canada did not always have enough capacity to handle all of the oil offered for shipment. The report found that in general additional pipeline capacity would be required to accommodate growing supply and to provide greater market flexibility.

Applications and Hearings in 2008

While our involvement in a new project usually begins with an application, companies can request a pre-application meeting with our staff to gain a better understanding of application processes and regulatory requirements. We have a filing manual on our website to guide companies through the application process.

When we receive an application, we assess a range of issues related to the application, including environmental, socio-economic and lands issues. Before the Board makes a decision on an application for a major project, a hearing is usually held. This allows the company proposing the project, and any other interested people or groups, a chance to provide information on the project and to provide input in support of or against a project.

The year 2008 will be known for the high hearing workload. The Board considered applications for new pipeline facilities, tolls and tariffs filings, activities on frontier lands, as well as export and import licences and orders. A number of applications to expand the capacity of the oil pipeline system were also considered by the Board. In total, there were 17 public proceedings in 2008 (See Appendix A and B).

Under the NEB Act, parties dissatisfied with Board decisions can ask for a Board review, or the Federal Court of Appeal (FCA) for leave to appeal. Of the appeals filed in 2008, four were dismissed and three decisions were pending as of 31 December 2008. For a list of these appeals see Appendix C.

Proceedings
- 4 Written Hearings
- 13 Oral Hearings
- 60 Hearing Days for Oral Hearings

Certificates, Orders, Permits and Applications
- 169 Certificate, Orders, Permits and Letter approvals

Pipeline tolls and tariffs under Part IV of the NEB Act
- 13 Orders and Permits issued

Exports and imports of natural gas, crude oil, natural gas liquids and electricity under Part VI of the NEB Act
- 412 Orders and Permits issued

Exploration and production activity in frontier areas under the COGO Act
- 35 Applications approved

Activity in frontier areas under the CPR Act
- 5 Significant Discovery Applications

Landowner Complaint Resolution Program
- 26 Landowner files considered

Financial Audits
- 3 Financial audits

Delivery Flexibility

Today most producers of natural gas in northeast B.C. can quickly and easily respond to market signals. When it is cold in eastern Canada and the eastern U.S., a producer can swing its production to pipelines heading east and take advantage of higher market prices in that market. When the market demands more gas in California, the gas can be redirected to the south or, when Vancouver gets an unexpected snowfall and gas demand increases, gas can be switched to yet another pipeline system to be delivered to the lower mainland. Similarly, natural gas buyers who are connected to different sources of natural gas or oil can source their supplies from different markets, depending upon their needs.

We strive to work with all parties, and consider all relevant interests. Although our regulatory process is dictated by the NEB Act and other legislation, progress can be made on complex regulatory and land matters outside of the hearing process. This was the case for at least four major applications in 2008 which, although we had allocated resources to them, were resolved without the need for a full hearing proceeding or panel decision.

For more information about the applications that came before the Board in 2008, please visit our website and select Reports >Regulatory Agenda>2008.

2008 Export Applications at a Glance:

- The NEB processed a total of 65 propane, 53 butane and 112 oil and petroleum products short term export orders in 2008.
- About 172 short term orders for exports and imports of natural gas were issued within 48 hours of request.
- A total of 14 Electricity Export applications were received and 10 permits were issued, a similar level to 2007.

The Board takes a responsible approach to regulation, protecting Canada's environment, while at the same time working to improve Canadian's quality of life. All decisions by the Board are guided by the basic principles of sustainable development. That is, all social, economic and environmental considerations are taken into account when making a facility decision.

In April 2008, the NEB approved a 180 kilometre extension to Enbridge Pipeline Inc.'s (Enbridge) Line 4 as well as Enbridge's application for its tolling method and to reactivate three sections of pre-existing pipeline. The project triggered an environmental assessment under the *Canadian Environmental Assessment Act* which found that it is not likely to cause significant adverse environmental effects.

The NEB attached 15 conditions to its approval, including a requirement for Enbridge to file an updated Environmental Protection Plan for the NEB's approval. The Board's ongoing monitoring and inspection programs will ensure implementation of the mitigation and protection methods identified in the environmental assessment report.

The NEB application process requires that companies demonstrate that they have collaborated with communities in the project area and discussed with landowners and other stakeholders the implications of their project.

In February 2008, Westcoast Energy Inc. filed an application with the NEB regarding its proposed South Peace Pipeline Project, a 91.7 kilometre extension of Westcoast's existing Fort St. John raw gas transmission system to an area south of the Peace River near Taylor, British Columbia. The assessment of the pipeline focused, in part, on social impacts and community consultation. Westcoast committed in its application to a Continuing Education Program and to providing ongoing information about project construction and operations to potentially affected stakeholders. With these commitments in place, the project was approved by the Board on 18 November.

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The Board supports public engagement through the timely and transparent sharing of information. In making its decision for the Alberta Clipper project, the NEB was presented with evidence from interveners on many issues including impacts to Aboriginal peoples and the impact of the project on domestic interests.

In May 2007, Enbridge Pipelines Inc. applied to the NEB to construct and operate the Canadian portion of the Alberta Clipper Expansion Project, a new 1 607 kilometre oil pipeline from Hardisty, Alberta to Superior, Wisconsin.

During the public hearing process in November 2007, a number of organizations and groups, who had been registered as interveners in the hearing, reached settlement agreements with Enbridge prior to their planned oral hearing date. The Board approved the project in February 2008 with a number of conditions addressing concerns raised during the hearing process. For example, one condition required Enbridge to conduct an emergency response exercise at its South Saskatchewan River crossing for the purpose of testing response procedures, equipment, timing, safety procedures, communications systems, training of company personnel, and the effectiveness of continuing education programs.

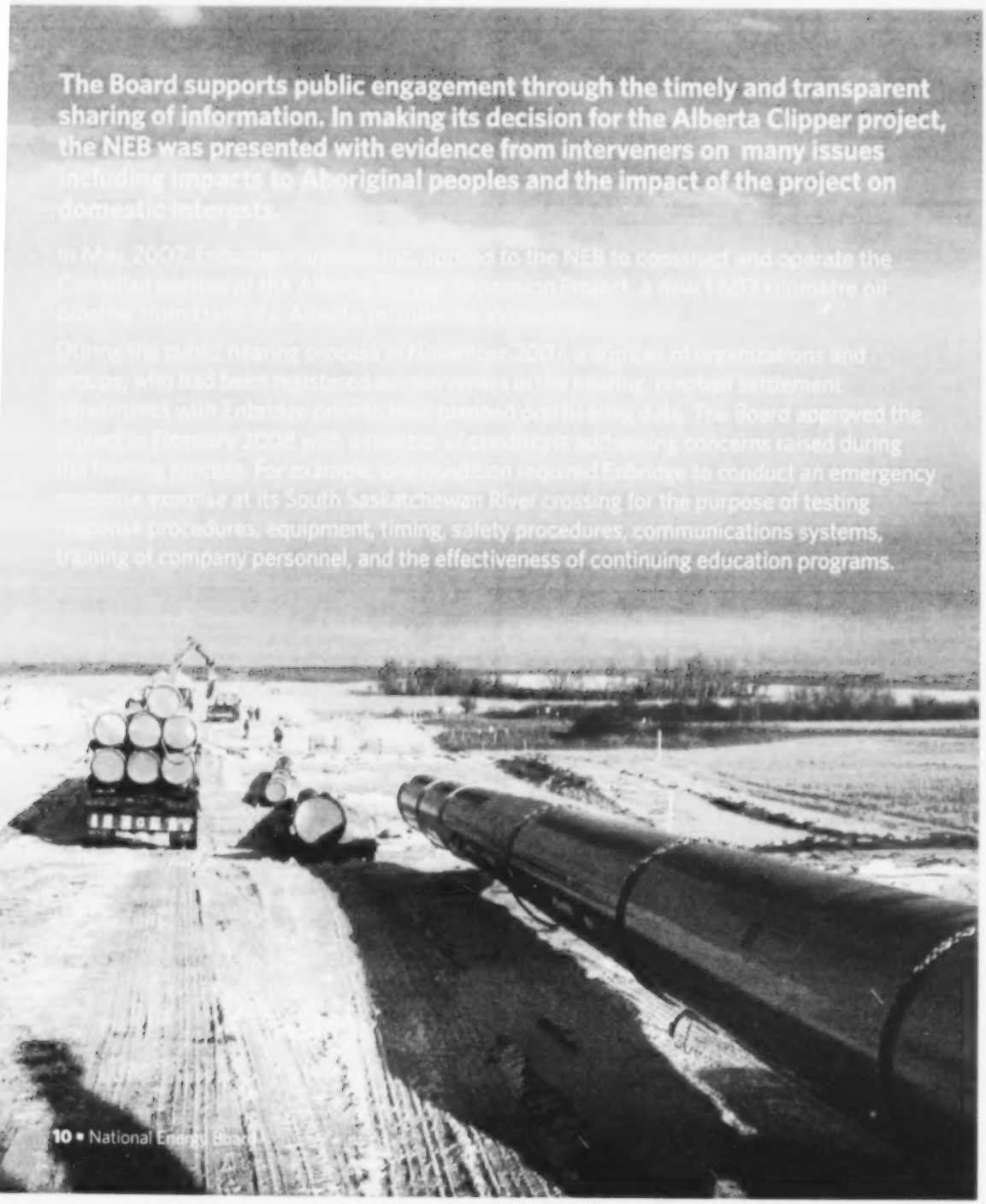
Frontier Activity

In 2008, we received five Significant Discovery applications under the CPR Act. Three application assessments were completed and Significant Discoveries Declarations (SDD) were issued. An SDD recognizes that a discovery of oil or gas in the North or in offshore areas has been made and defines the lands to which the accumulation of oil or gas may extend. The Board also declared one application that was carried over from the year 2007.

Increased Geophysical Activity in the Offshore

Five recently issued exploration licenses in the Beaufort Sea and increased activity in the Baffin Bay area resulted in higher levels of geophysical activity in Canada's offshore in 2008 (both Beaufort Sea and North Labrador/Davis Strait area). Six marine geophysical programs were successfully conducted in 2008 compared to two in 2007. Types of programs include conventional two dimensional and three dimensional seismic programs, as well as gravity and magnetic surveys.

Authorized geological, geophysical or geotechnical applications (GnG)	16
Number of offshore marine geophysical programs	9
Authorized applications to drill a well (ADW)	8
Authorized applications to alter the condition of a well (ACW)	9
Authorized drilling program authorizations (DPA)	2



The Board supports public engagement through the timely and transparent sharing of information. In making its decision for the Alberta Clipper project, the NEB was presented with evidence from interveners on many issues including impacts to Aboriginal peoples and the impact of the project on domestic interests.

During the public hearing process (November 2007), a number of organizations and people, who had been registered as interveners in the hearing, reached settlement agreements with Enbridge prior to the planned oral hearing date. The Board approved the project in January 2008 with certain conditions addressing concerns raised during the hearing process. For example, a condition required Enbridge to conduct an emergency response exercise at its South Saskatchewan River crossing for the purpose of testing response procedures, equipment, timing, safety procedures, communications systems, training of company personnel, and the effectiveness of continuing education programs.

Frontier Activity

In 2008, we received five Significant Discovery applications under the CPR Act. Three application assessments were completed and Significant Discoveries Declarations (SDD) were issued. An SDD recognizes that a discovery of oil or gas in the North or in offshore areas has been made and defines the lands to which the accumulation of oil or gas may extend. The Board also declared one application that was carried over from the year 2007.

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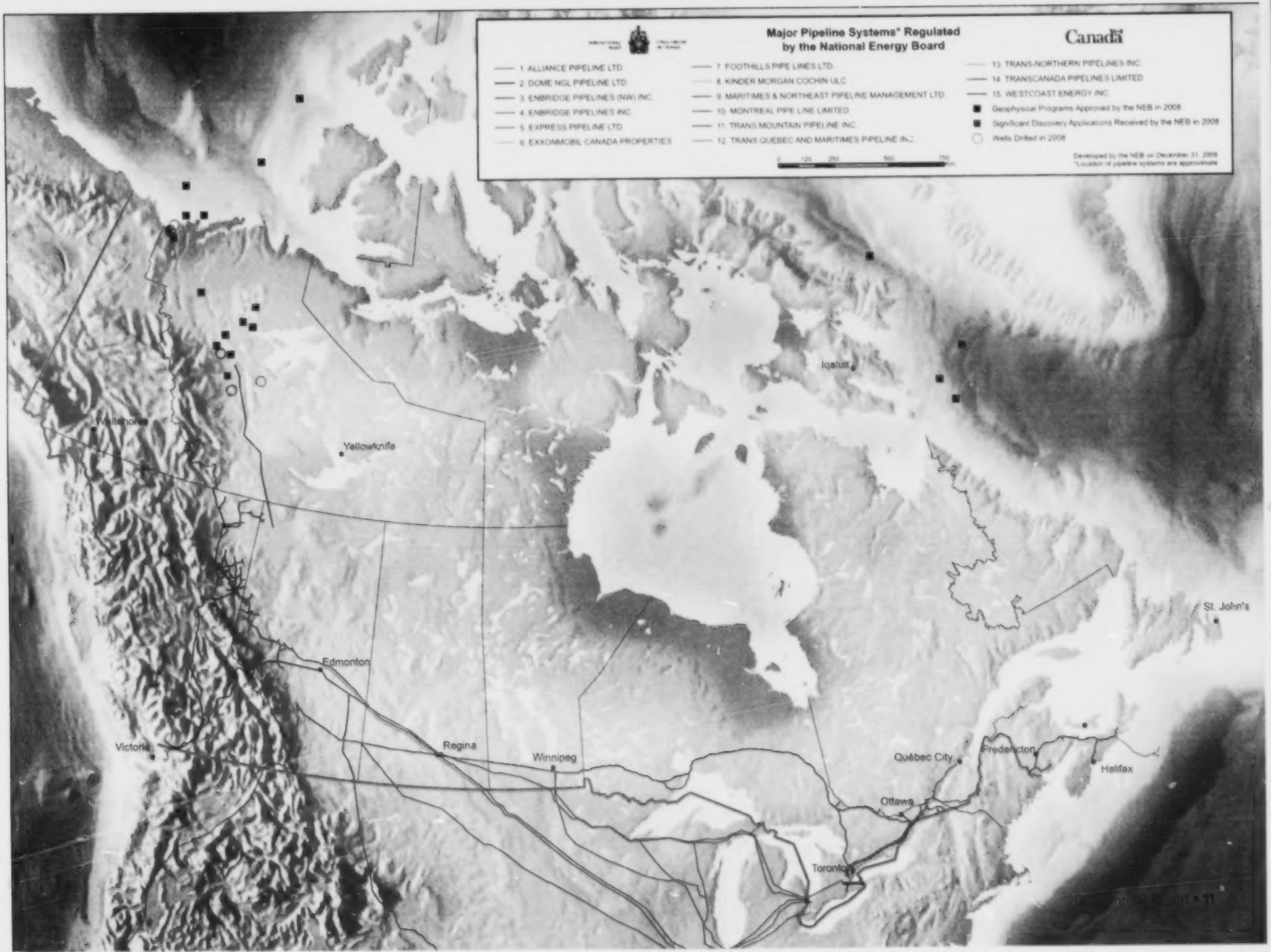
Major Pipeline Systems* Regulated by the National Energy Board
Canada
1. ALLIANCE PIPELINE LTD.
2. DOME NGL PIPELINE LTD.
3. ENBRIDGE PIPELINES (NW) INC.
4. ENBRIDGE PIPELINES INC.
5. EXPRESS PIPELINE LTD.
6. EXXONMOBIL CANADA PROPERTIES
7. FOOTHILLS PIPE LINES LTD.
8. KINDER MORGAN COCHIN ULC
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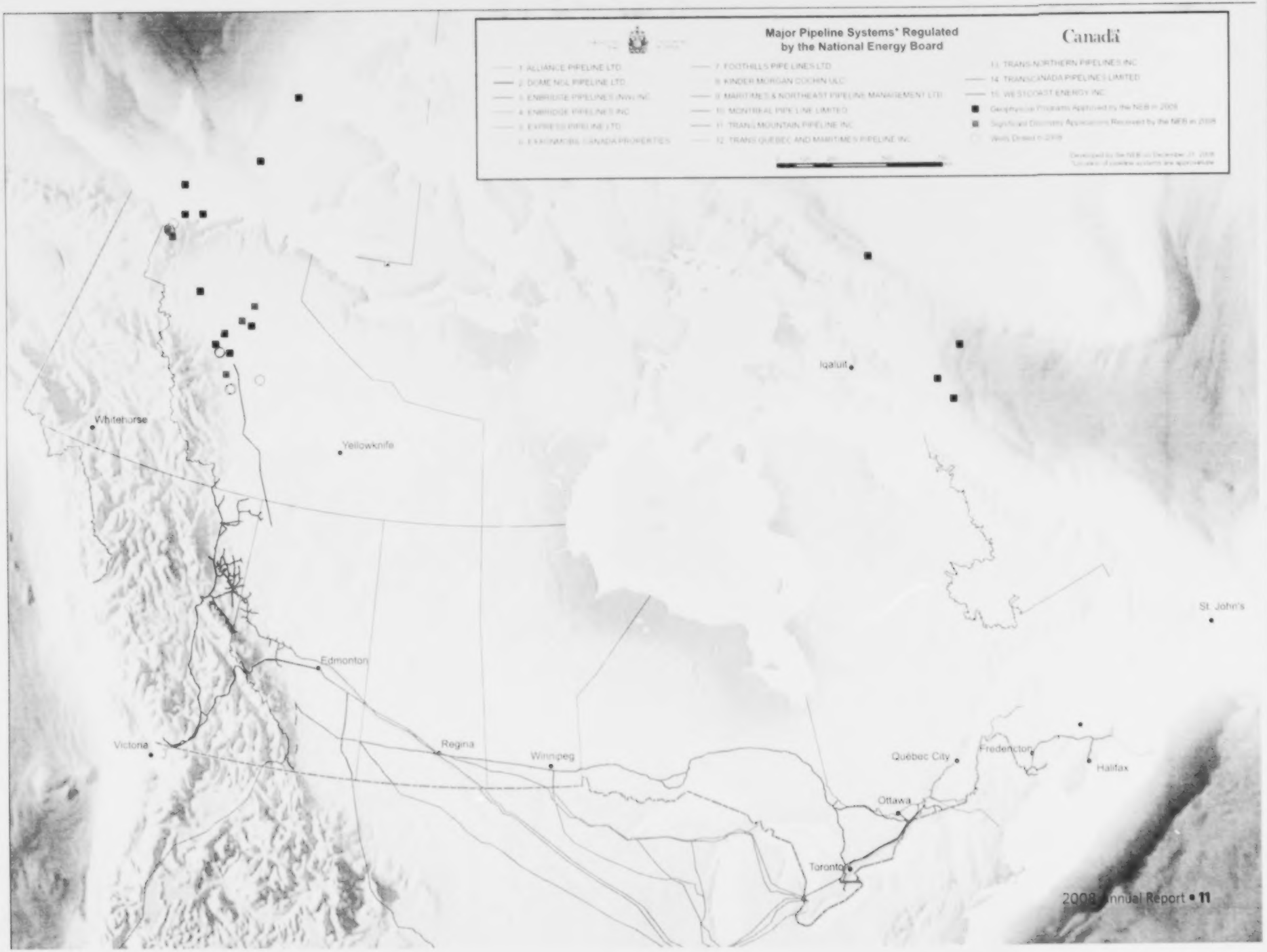
10. MONTREAL PIPE LINE LIMITED
11. TRANS MOUNTAIN PIPELINE INC.
12. TRANS QUEBEC AND MARITIMES PIPELINE INC.
13. TRANS-NORTHERN PIPELINES INC.
14. TRANSCANADA PIPELINES LIMITED
15. WESTCOAST ENERGY INC.
Geophysical Programs Approved by the NEB in 2008
Significant Discovery Applications Received by the NEB in 2008
Wells Drilled in 2008
Developed by the NEB on December 31, 2008
*Location of pipeline systems are approximate
Iqaluit
Yellowknife
St. John's
Edmonton
Victoria
Regina
Winnipeg
Québec City
Fredericton
Halifax
Ottawa
Toronto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St. John's
Edmonton
Victoria
Regina
Winnipeg
Quebec City
Fredericton
Halifax
Ottawa
Toronto

Service Standards

In today's results-based management environment, service standards have become an essential tool for building effective citizen-focused service. We have service standards for many of our regulatory functions and services so that stakeholders will know approximately how long it will take the Board to process an application or request. In 2008, we met all but one of our published Service Standards. These are available on our website under Who we are & our governance > NEB Service Standards.

Table 1 - NEB Service Standards and Results in 2008

Task	Service Standard	No. of Applications or Requests	Results	Average Cycle Times
Release of Hearing Decisions	80% of decisions completed within 12 weeks following a public hearing	10	100%	12 weeks
COGO Act Applications to drill a well	Decision rendered within 21 calendar days of the receipt of a complete application	5	100%	15 days
COGO Act Geological and Geophysical Applications	Decision rendered within 30 calendar days of the receipt of a complete application	11	100%	10 days
Authorization for export of crude oil and/or petroleum products	Two working days (Short-term orders only. Long-term licences are subject to a full hearing process)	112	100%	2 days
Authorization for export and import of natural gas	Two working days (Short-term orders only. Long term licences are subject to a full hearing process)	172	99%	2 days
Authorization for export of NGLs	Two working days	118	100%	2 days
CPR Act Applications	80% of decisions rendered within 90 calendar days from the receipt of a complete application	5	100%	35 days
Financial Audits	80% of draft audit reports will be sent to the company within eight weeks of field work completion	3	100%	34 days
Landowner Complaints	80% of all complaints resolved within 60 calendar days of receipt of the initial complaint (subject to the complexity of the complaint)	26	100%	35 days
Responding to NEB library requests	Respond to requests within one working day of receipt	1412	90%	1 day

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Table 2 - Service Standards and Results for Electricity Export Applications in 2008

Category	Category Description	Service Standard	No. of Applications	Results	Average Cycle Times
A	Minor complexity of issues	80% of decisions released within 40 calendar days following the completion of the Notice of Application period	8	100%	34 days
B	Moderate complexity of issues	80% of decisions released within 90 calendar days following the completion of the Notice of Application period	2	100%	81 days
C	Major complexity of issues	No service standard	0	N/A	N/A

Service Standards for Facilities Applications not Requiring a Hearing

The Board receives some applications which do not require a public hearing in order to make a decision. For example, an application to build a pipeline shorter than 40 kilometres is normally considered under Section 58 of the NEB Act with no public hearing being held. In 2008, we were able to exceed our service standard for processing Section 58 applications, in part, due to the introduction of our Online Application System. Table 3 shows the service standards and results for Section 58 applications.

Table 3 - Service Standards and Results for Section 58 Applications in 2008

Category	Category Description	Service Standard	No. of Applications	Results	Average Cycle Times
A	Minor complexity of issues with no third party interest	80% completed within 40 calendar days of the receipt of a complete application	7	100%	22 days
B	Moderate complexity of issues with possible third party interest	80% completed within 90 calendar days of the receipt of a complete application	5	100%	56 days
C	Major complexity of issues with likely third party interest	80% completed within 120 calendar days of the receipt of a complete application	0	N/A	N/A

The Board works on behalf of the Canadian public to ensure a safe and secure supply of energy.

In September 2008, Repsol Energy Canada's licence application to import natural gas in liquefied form (LNG) was approved. The Board found that the benefits associated with bringing an additional and stable supply of gas into Maritime Canada are significant, real and numerous. In addition, the Board approved Repsol's application for a licence to export natural gas to U.S. markets.

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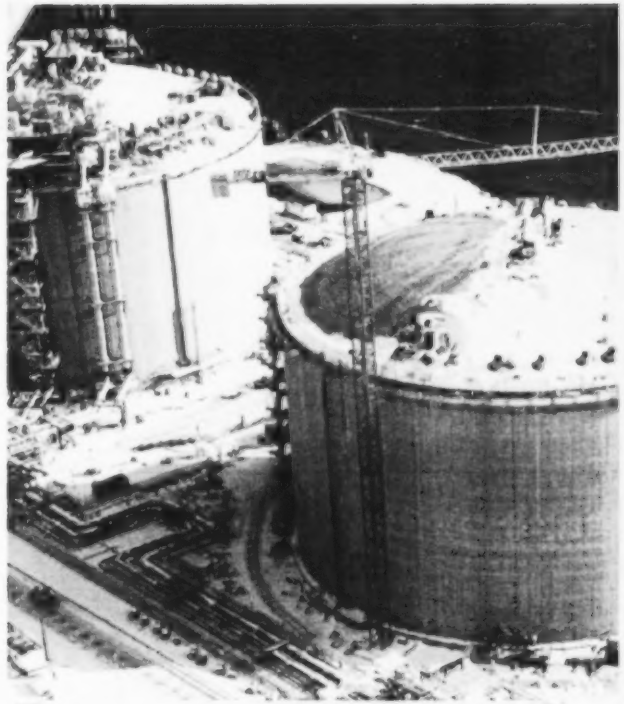

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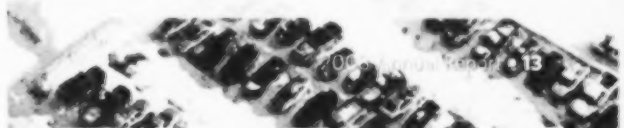

Safety, Security and the Environment

Increased construction activity and a rising number of incidents kept NEB inspectors busy in 2008. The NEB regulates over 45 000 kilometres of pipeline in Canada. This network continued to grow as pipeline construction activity remained high in 2008. With this increase in activity we saw a corresponding increase in safety related incidents.

Fostering a Safety Culture

Once an application has been approved, the NEB then has the responsibility for monitoring the construction and operation of the facility, and auditing the company's activities and procedures to ensure regulatory compliance. Through compliance monitoring we develop and implement programs to anticipate, prevent, mitigate and manage conditions which could pose a risk to the safety of workers, the public and the environment.

We begin by auditing a company's compliance activities to determine if its compliance approach is adequate. Then, through inspections, investigations and meetings, we measure how well a company's compliance programs are being implemented. The effectiveness of these compliance programs are then measured against performance indicators such as pipe ruptures, releases and injury frequencies. To determine how well a company is doing, and which companies might need more monitoring, the company's performance is compared to industry averages.

In 2008, we used a number of different compliance monitoring tools. For example, we held a number of meetings with companies to review compliance plans and programs. We also conducted technical audits which assess a company's compliance activities to determine if its compliance approach meets the intent of the regulations. Three companies had adequate programs, while one remaining company required improvements.

We put increased emphasis on the requirement for companies to produce the emergency response manuals that were committed to in their applications. NEB staff were also able to observe some simulated Emergency Response Exercises and provide feedback on how to improve the plans and responses.

A new compliance tool, a pre-construction evaluation, was introduced in 2008 on a trial basis. Pre-construction evaluations were completed for two companies. This tool will help us assess whether a company has established adequate safety and environmental protection programs during the construction phase of their project, and continually improve the effectiveness of these programs.

Table 4 - 2008 Compliance Activities under the NEB Act and the COGO Act

Compliance Activity	Conducted
Inspections	
• Pipeline Integrity	30
• Security	14
• Operation and Maintenance	2
Pre-Construction Evaluations	2
Emergency Exercises	3
Technical Program Audits	4
Total	216

Each compliance activity that we conduct is documented and follow-up occurs to correct deficiencies. Information relating to non-compliances is captured for the purposes of conducting a risk analysis on each company. Doing so allows us to prioritize companies and projects when deciding how to allocate resources to compliance activities.

NEB-Regulated Company Incidents

It is in our mandate to promote pipeline safety - safety for the workers, safety for the environment and safety for Canadians.

One of the ways we promote pipeline safety is by asking the 166 companies we regulate to share their performance data on occupational injuries, hours of work, and leaks and spills. We also require companies to report all incidents that take place (see Figure 1). The NEB analyzes this data and uses it to develop performance indicators.

These indicators are used to identify trends within the industry as well as to evaluate a company's individual performance compared to the industry average. In 2008 we published the report *Focus on Safety and Environment* which analysed the trends for 2006.

Under the *Onshore Pipeline Regulations*, a reportable incident is defined as:

- The death or serious injury of a person;
- A significant adverse effect on the environment;
- An unintended fire or explosion;
- The unintended or uncontained release of low vapour pressure (LVP) hydrocarbons in excess of 1 500 litres;
- The unintended or uncontrolled release of gas or high vapour pressure (HVP) hydrocarbons;
- The operation of a pipeline beyond its design limits as determined under CSA Z662, CSA Z276 or any operating limits imposed by the Board; and,
- Within a processing plant, any occurrence that results in or could result in a significant adverse effect on property, the environment or the safety of people.

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Table 4 - 2008 Compliance Activities under the NEB Act and the COGO Act

Compliance Activity	Conducted
Inspections	
• Safety	46
• Pipeline Integrity	30
• Environmental	39
• Security	14
• Emergency Management	1
• Operation and Maintenance	2
• Frontier	27
Pre-Construction Evaluations	2
Emergency Manual Reviews	18
Emergency Exercises	3
Compliance Meetings	31
Technical Program Audits	4
Total	**216**

Each compliance activity that we conduct is documented and follow-up occurs to correct deficiencies. Information relating to non-compliances is captured for the purposes of conducting a risk analysis on each company. Doing so allows us to prioritize companies and projects when deciding how to allocate resources to compliance activities.

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One of the ways we promote pipeline safety is by asking the 146 companies we regulate to share their performance data on occupational injuries, hours of work, and fires and spills. We also require companies to report all incidents that take place (see Figure 1). The NEB analyzes this data and uses it to develop performance indicators.

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Figure 1:
OPR Incidents by Occurence Type

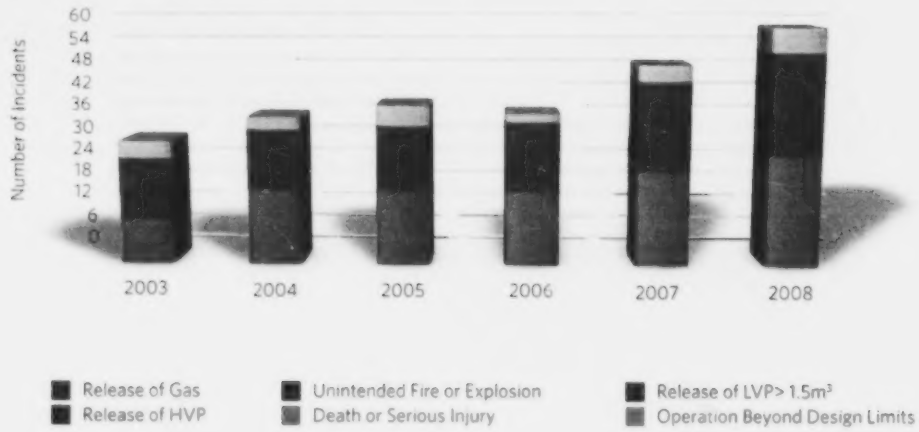
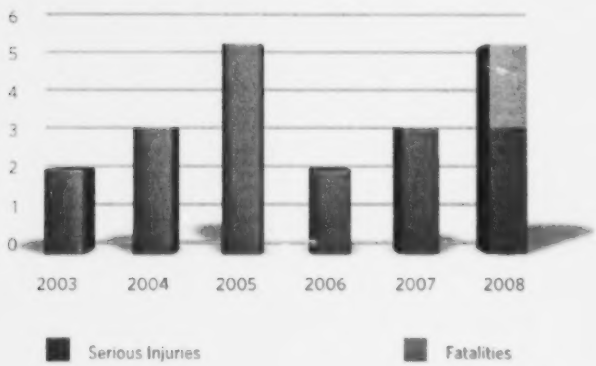


Figure 2:
Reportable Serious Injuries and Fatalities at NEB Regulated Companies



In 2008, there were 58 reportable incidents as compared to 49 in 2007. Of these, our investigators responded to five incidents which included two fatalities, and three serious injuries (see Figure 2).

The Board took these fatalities and injuries very seriously. In addition to our investigations, we followed up with the companies involved to ensure corrective action was taken. We also sent a letter to all NEB-regulated companies highlighting the findings of our investigations so that companies could review and improve their own safety programs. Furthermore, we continued to promote safety and environmental protection through our efforts to:

- Partner with other regulators to enhance understanding and awareness of the safety and environmental aspects of the pipeline industry;
- Participate with industry in areas such as developing new standards and pipeline research;
- Take a leadership role in developing content for conferences such as the International Pipeline Conference and the Banff Pipeline Workshop;
- Perform audits, inspections and investigations; and,
- Take on the role of federal champion with the Canadian Common Ground Alliance, an association dedicated to increasing awareness and promoting best practices for excavation and construction near pipelines and other underground infrastructure.

Companies are required to report all hazardous occurrences defined by the *Oil and Gas Occupational Safety and Health Regulations* under the *Canada Labour Code* Part II. In the last five years we have seen a marked decrease in occurrences, the majority of which are spills. This can be attributed to increased compliance monitoring as well as the work we have done with companies to be more proactive in spill prevention.

In 2008, there were a total of 26 hazardous occurrences, up slightly from the number of hazardous occurrences in 2007 (see Figure 3). The increase in numbers can be linked to a corresponding increase in activity and hours worked.

Twenty-one of the occurrences were reportable spills, one was an equipment failure, two were disabling injuries, and two were non-work related health conditions, but were reportable as a result of the medical evacuation. The frequency of disabling injuries was 1.0 per million hours worked in 2008, up from 0.65 per million hours worked in 2007.

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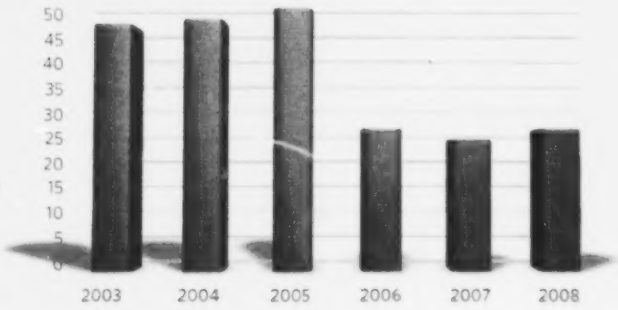

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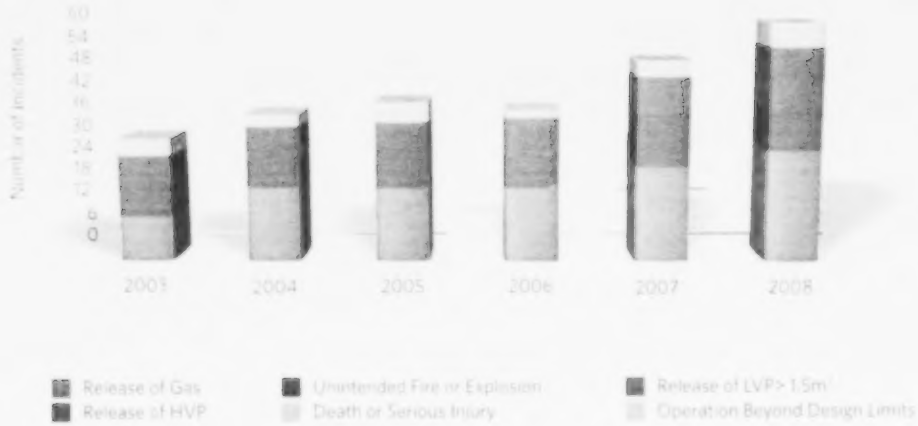

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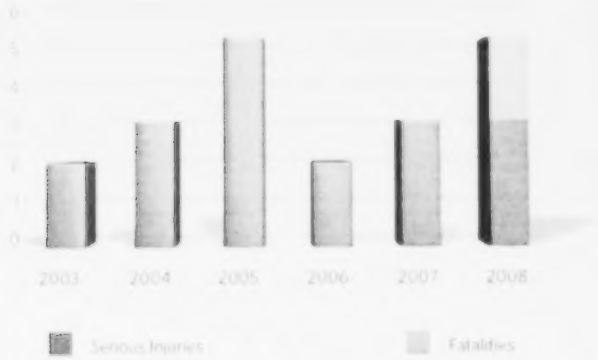

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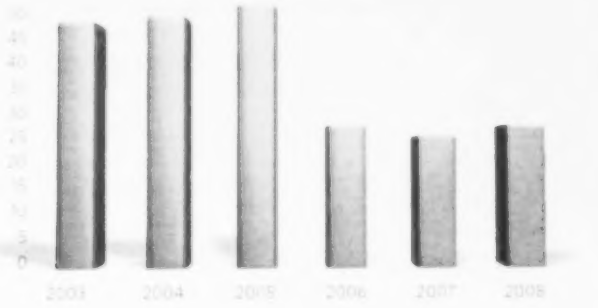

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Damage Prevention

Pipelines are a safe method of transporting hydrocarbons. However, since these pipelines are often located in populated areas, they need to be protected from third-party interference. In order to safeguard those who live and work around pipelines, as well as companies who operate them, we work with a variety of stakeholders to identify ways to prevent third party damage.

Under the *Pipeline Crossing Regulations*, federally regulated companies are required to report to the NEB any unauthorized excavation or construction activity that occurred on their rights of way or in the 30 metre safety zone. These statistics are used to identify areas that may need more attention and increased education.

Board inspectors regularly work with our regulated companies and all stakeholders to promote awareness and education to prevent damage to pipelines through inspections, investigations, audits, and public awareness activities across Canada.

Crossing Violations

A crossing violation is an intrusion within a 30 metre safety zone or onto a right of way without permission of the pipeline company. It can involve excavation, construction, or other activities which would impede access and visibility of the right of way.

In 2008 there were 120 crossing violations reported, a 79 per cent increase over those reported in 2007 (see Figure 4). By analysing this data we were able to identify trends in the types of crossing violation, and the jurisdictions and stakeholders most commonly involved. With this information we were able to refocus our Damage Prevention strategy, and develop the tools we need to reduce the number of crossing violations.

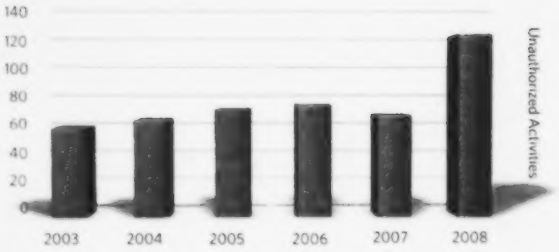
Security Management Program

The NEB's Security Management Program remained a high priority for us in 2008, providing regulatory oversight during a project lifecycle to assure that regulated companies and operations were safeguarded against threats. In addition to the security inspections conducted during pipeline operation, we also began to conduct security inspections during construction.

The industry continued to be challenged by natural disasters and malicious acts. The pipeline bombings in northeast BC in 2008 prompted us to intensify our focus on the safety and security of pipelines. Although the pipelines targeted were not NEB-regulated pipelines, we collaborated with our partners in government and industry to identify ways to ensure the resilience of Canada's energy infrastructure.

We collaborated with the Royal Canadian Mounted Police (RCMP), Public Safety Canada, Natural Resources Canada (NRCan), the Canadian Energy Pipeline Association (CEPA) and the CAPP to produce a security brochure which promotes the reporting of suspicious activity around pipeline facilities. In addition, we developed a contact list for all of our regulated companies to enable sharing of information in the event of a significant security incident.

Figure 4:
Crossing Violations



Since 2006 we have been working with the Canadian Standards Association (CSA) and security experts to draft a security standard for the Canadian petroleum and natural gas industry which will address the prevention and management of security risks that could negatively impact people, property, the environment, or economic stability. In 2008, we released a draft of this standard for public review. Comments and feedback are being reviewed and the standard is expected to be released in the fall of 2009.

Damage Prevention

Pipelines are a safe method of transporting hydrocarbons. However, since these pipelines are often located in populated areas, they need to be protected from third-party interference. In order to safeguard those who live and work around pipelines, as well as companies who operate them, we work with a variety of stakeholders to identify ways to prevent third party damage.

Under the *Pipeline Crossing Regulations*, federally regulated companies are required to report to the NEB any unauthorized excavation or construction activity that occurred on their rights of way or in the 30 metre safety zone. These statistics are used to identify areas that may need more attention and increased education.

Board inspectors regularly work with our regulated companies and all stakeholders to promote awareness and education to prevent damage to pipelines through inspections, investigations, audits, and public awareness activities across Canada.

Crossing Violations

A crossing violation is an intrusion within a 30 metre safety zone or onto a right of way without permission of the pipeline company. It can involve excavation, construction, or other activities which would impede access and visibility of the right of way.

In 2008 there were 120 crossing violations reported, a 79 per cent increase over those reported in 2007 (see Figure 4). By analysing this data we were able to identify trends in the types of crossing violation, and the jurisdictions and stakeholders most commonly involved. With this information we were able to refocus our Damage Prevention strategy, and develop the tools we need to reduce the number of crossing violations.

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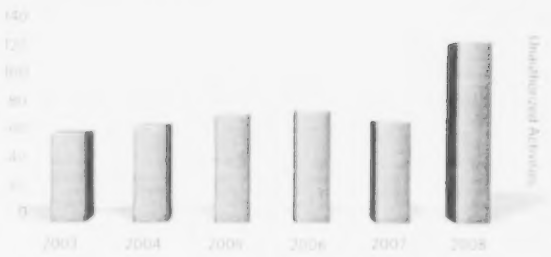

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Striving For Regulatory Excellence

We continually seek ways to improve our processes at the Board by encouraging innovation, knowledge sharing and partnerships. In 2008 we introduced new tools, processes and regulatory improvements to support this goal.

Online Application System

In June 2008, we launched a new Online Application System (OAS) which allows companies to build and submit section 58 applications (for a facility involving less than 40 kilometre of new pipeline) through the Board's website. To accompany the system, we also developed a series of tutorials explaining how to set up an account, and how to build and file applications. In 2008, 23 accounts were created, and six applications were submitted through the system.

The OAS has helped to improve our regulatory process by making the application process more efficient and simplifying the application review process. For applicants, the OAS is a simpler way of filing that provides companies with valuable and consistent guidance on what topics they should focus their efforts on.

This system allows companies to use the NEB's project-related risk criteria to build their applications online. The criteria used to determine if a project is considered low or high risk are in the areas of consultation, engineering, environment, lands, socio-economics and economics. If companies cannot meet one or more of the online criteria, the system will prompt them to provide additional information. Less complex projects will require less information to be filed, and more complex projects will result in larger and more complex applications.

The Board continues to apply the same level of diligence and care to the review of all applications, but the process is now streamlined because only non-routine issues require more information to be filed. The new system provides more regulatory efficiency while still promoting safety, security and environmental protection. This means less time and fewer resources are committed to issues that require less oversight. Applications filed using the OAS are available on our website under Regulatory Documents.

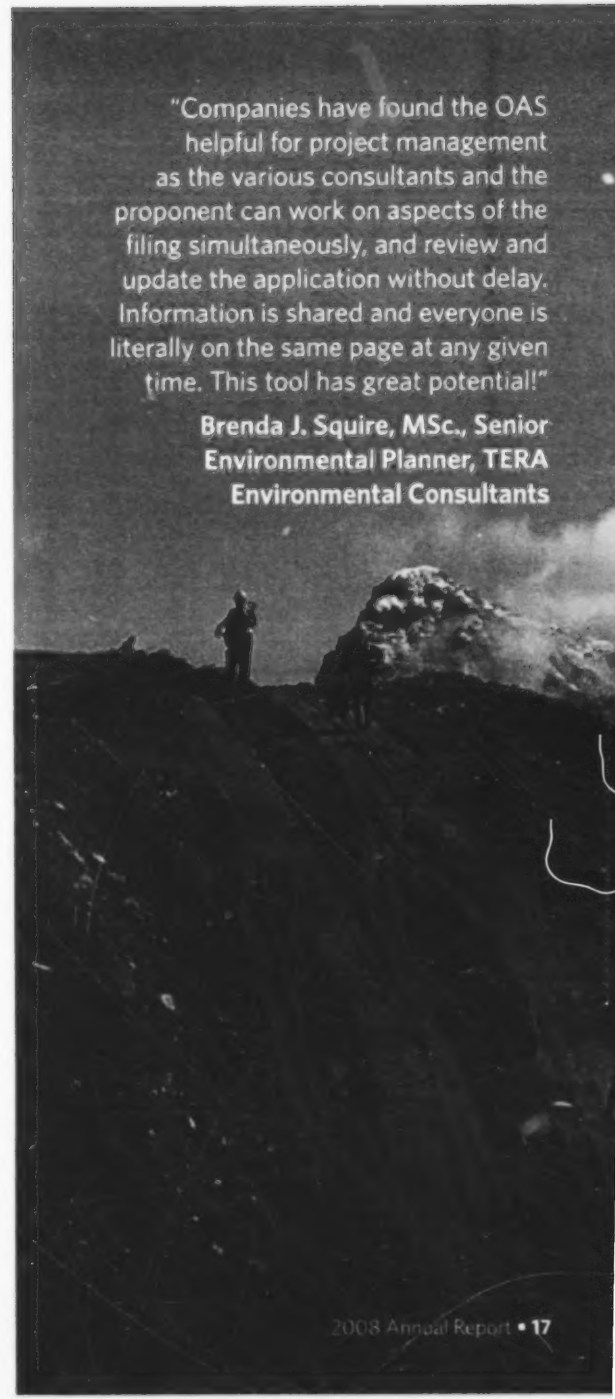
Delegation of Authority under the *Canadian Petroleum Resources Act* (CPR Act)

In March 2008, the Board delegated certain responsibilities under the CPR Act to the NEB's Chief Conservation Officer (CCO). The purpose of the delegation is to make the application process under the CPR Act more efficient. The delegation allows the CCO to handle all aspects of the investigative phase of applications for significant discovery declarations and commercial discovery applications in frontier areas under the Board's jurisdiction. The CCO may also make declarations if no hearing is requested. If a hearing is requested, Board Members would preside at the hearing and make the final decision.

As of 31 December 2008, the CCO had made four significant discovery declarations and one application was under review. Declarations were noted at Board meetings, allowing the CCO to address any questions the Board had regarding a declaration.

Decommissioning Provisions Implemented

In 2008, amendments to the *Onshore Pipeline Regulations, 1999* and the *National Energy Board Processing Plant Regulations* came into effect. Following stakeholder consultation in 2003, the



"Companies have found the OAS helpful for project management as the various consultants and the proponent can work on aspects of the filing simultaneously, and review and update the application without delay. Information is shared and everyone is literally on the same page at any given time. This tool has great potential!"

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Board began drafting decommissioning provisions which require companies to seek the approval of the Board when planning to permanently cease the operation of part (or parts) of a facility where this does not result in the entire facility being shut down. This requirement allows the Board to examine an application to assess the environmental effects of decommissioning, and to ensure the continued safe operation of the pipeline.

Fine Tuning the Federal Regulatory Review Process

A prime example of our commitment to improving regulatory clarity and efficiency is our partnership with the Major Projects Management Office (MPMO). A major project such as a pipeline often requires approvals from a number of different federal agencies, including the NEB. The MPMO was established by the Government of Canada in October 2007 to improve the coordination among these agencies, and to make improvements to the regulatory system for major resource projects.

The MPMO is responsible, in part, for resolving issues related to project applications amongst federal agencies. Combined with the public tracking of project milestones, the MPMO can bring improved accountability, transparency and efficiency to the regulatory process.

Already a leader in regulatory efficiency, the Board saw an opportunity to help improve Canada's regulatory system. The MPMO process will apply to all section 52 (pipeline) and section 58.16 (power line) NEB Act applications for the construction of new facilities south of the 60th parallel. Since applications to the NEB will still be reviewed and processed in the same way as in the past, our timelines and filing requirements are not expected to change. However, the MPMO initiative is expected to improve coordination between federal departments, and combined with our experience and record in timely regulatory decision making, will enhance the timely processing of other regulatory permits associated with pipeline projects that are found to be in the public interest.

In 2008, we worked with the MPMO as well as other federal agencies and stakeholders to develop policies, procedures and guidelines for a more coordinated and efficient approach to the federal regulatory review process. As a result of this work, the Board developed and began implementing a new model for Aboriginal Engagement.

Enhancing Aboriginal Engagement

The Board recognises the importance of Aboriginal participation in the regulatory process. In 2003, we developed an Aboriginal Engagement program to help improve Aboriginal people's understanding of NEB processes.

In an effort to make public hearings more accessible to Aboriginal people, the Board found ways to recognize the unique traditions and needs of Aboriginal participants in the hearing process. For example, Board members gave gifts of tobacco to Elders who shared sacred knowledge, and held a traditional pipe ceremony before a hearing to affirm Aboriginal intervenors. In addition, hearings have been held in locations near Aboriginal communities.

In 2008, in partnership with the Major Projects Management Office, the NEB and its federal regulatory partners determined that additional engagement efforts could enhance the regulatory process.

We formally adopted an Enhanced Aboriginal Engagement strategy, which builds on the existing Aboriginal Engagement program. We now proactively contact Aboriginal groups whose interests might be affected by a proposed NEB-regulated project, sometimes even before an application is filed. We offer information to help Aboriginal groups understand the regulatory and environmental review processes for the application and how to participate in the review.

Hal Eagletail of the Tsuu Tsina First Nation and National Energy Board Chair Gaétan Caron participate in a traditional smudge ceremony on 21 April 2008. Sweetgrass smoke is brushed over a person's body to cleanse them both spiritually and physically of any negative thoughts or energy. The ceremony marked the signing of a Memorandum of Understanding between First Nations Tax Commission and the National Energy Board.

Land Matters Consultation Initiative - Reaching Out

Larry Ness was concerned.

The construction of a new pipeline across his farm and ranch near New Brigden, Alberta was dividing his property in half, making it difficult to access his airstrip.

"The airplane is a big part of my life – I fly almost every day," explains Larry.

Situations like Larry's are not unique. With thousands of kilometres of new pipeline being built across Canada in 2008, there are many landowners with questions or concerns.

To help address these concerns, the Board created the Land Matters Consultation Initiative (LMCI). This initiative provided a forum for dialogue on land matters to help improve understanding of the various issues and to generate new ideas to improve the way in which these issues are incorporated into the Board's public interest considerations. LMCI also provides an opportunity for companies and landowners to foster and strengthen effective working relationships.

The Land Matters Consultation Initiative is divided into four streams:

1. Company interactions with landowners;
2. Improving the accessibility of NEB processes;
3. Pipeline abandonment – financial issues; and,
4. Pipeline abandonment – physical issues.

Concerns about the financial issues associated with abandoning a pipeline were to be considered in a public hearing in January 2009.

To address the issues in streams one, two and four, we met with the people and groups affected by these issues to hear their suggestions for improvement. The Board believes that constructively engaging interested people and organizations is the best way to deal with land-related concerns.

In 2008, our staff met with more than 400 concerned citizens like Larry Ness in 25 communities across Canada, from Campbell River to Halifax to Yellowknife. Participants in these meetings ranged from landowners, Aboriginal groups and municipal representatives to oil and gas companies and other government departments.

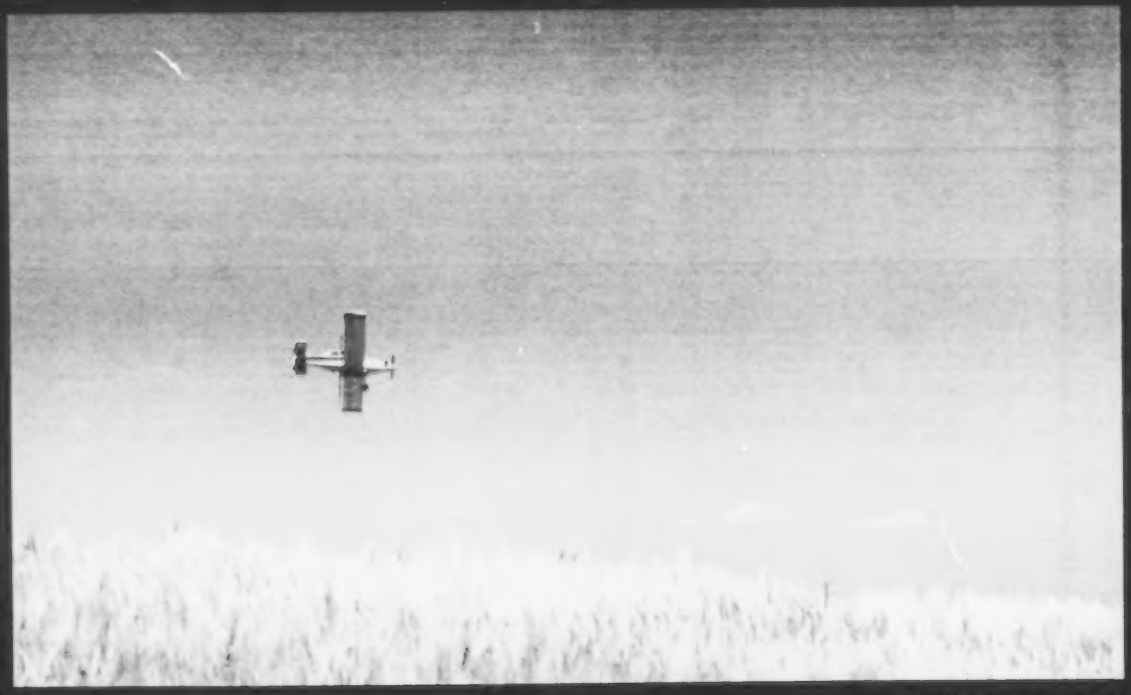
When staff from the NEB heard about Larry's concerns, they visited him to hear firsthand what he had to say.

"They came right to my farm," remembers Larry. "I was pleasantly surprised. They were genuinely interested in what my concerns were."

We hope this new foundation of trust will lead to continual improvements in the way land matters are considered by the Board. "We started on this road to building trust and relationships with people who are essential to the development of energy infrastructure in Canada," explains Dana Cornea, the NEB's Assistant Project Manager for LMCI.

On 16 December 2008, we released a draft final report on the initiative for public comment. The report presents our views on the issues discussed throughout the consultation process and the actions the Board is proposing to take.

"Our hope is that landowners will recognize our sincere attempt to address the issues we heard so that we can build on the trust we've gained through these meetings," said Dana.



Listening and Responding: Landowner Complaints

Energy companies regulated by the NEB are expected to involve people potentially affected by their activities in project development discussions throughout the planning, construction and operation phases of their facilities. While the Board expects companies to respond to complaints received from landowners or the public, our staff can provide assistance by helping facilitate interest-based approaches to resolving complaints through our Landowner Complaint Resolution Program.

In 2008, the Board received 26 landowner complaints. These complaints covered a range of issues from reclamation of crop land, to noise from compressor stations, to inadequate consultation. More than 80 per cent of these complaints were resolved within our service standard, which is within 60 calendar days of receipt of the initial complaint.

Strengthening Relationships in the Environmental Community

Environmental Non-Government Organizations (ENGOs) make up a diverse class of our stakeholders, representing a wide range of local, regional, national, and global issues. This year, the Board developed an ENGO-focused engagement initiative to improve our ability to communicate with this important group about our environmental oversight role across the lifecycle of proposed and regulated facilities.

In May 2008, we retained Pembina Corporate Consulting to assist the Board in identifying key environmental organizations and to document their unique perspectives via a survey and series of meetings with our senior staff. In 2009, we will move forward with preparing an ENGO Regulatory Improvement discussion paper to document the process and recommend improved NEB practices. Through this initiative we hope to improve environmental outcomes of NEB decisions. In addition we want people with environmental interests to see the NEB regulatory process as a forum in which environmental discussions and debates can take place.

Working with Industry and Regulatory Partners

We believe that the best outcomes are often achieved when good organizations work together to do good things. In that light, we proactively seek opportunities to pair the Board's core strengths with those of other agencies. While we are recognized as an expert regulatory tribunal, the Board realizes that there is much to be gained through knowledge sharing and partnerships.

Knowledge Sharing

In 2008, in partnership with our regulatory counterparts in British Columbia, Saskatchewan, and Manitoba, the Board delivered workshops across Western Canada focused on increasing awareness of pipeline integrity management, particularly the identification and mitigation of hazards.

The courses were all well attended by representatives of pipeline and service companies. The workshop also provided an opportunity to discuss and share best practices for developing an integrity management program that would satisfy regulatory requirements, including those related to sour gas service lines. Several pipeline incidents in 2008 also prompted a one-day forum covering the safe operation, inspection and maintenance of a pipeline.

Pipeline Integrity Management Workshop Fort. St. John, BC

Land sales in the Beaufort Sea and increased interest in offshore seismic activities in 2008 in Baffin Bay and Davis Strait prompted us to organise a workshop in September called "Navigating NEB's regulatory requirements in the non-Accord Frontier Lands." The objective of the workshop was to provide companies operating or planning to operate in the non-Accord Frontier Lands with a better understanding of the NEB's regulatory process under the COGO Act and the CPR Act, and to clarify regulatory expectations.

The one-day workshop was oversubscribed, with approximately 120 participants, which included regulated companies, their consultants or service providers, representatives from the CAPP, federal and territorial government departments and some First Nation groups. Participants were very positive about the workshop, indicating they had gained a better understanding of NEB processes, and how they fit with other regulatory processes.

Besides regulation, one of our most important objectives is to inform Canadians on energy market developments and create dialogue on key energy issues affecting Canadians. To support this objective, we organized the first Energy Futures Conference in 2008 to discuss the results of our 2007 report *Canada's Energy Future*. The report examines different possible energy futures that may unfold for Canadians up to the year 2030. It included a baseline projection, called the Reference Case, which is the Board's view of the most likely outcome up to the year 2015. At the 2008 Energy Futures Conference, the Board began the process of consultation and research which will allow us to update our long term energy supply and demand outlook with the *2009 Reference Case*.

In addition to organising these workshops, NEB staff contributed their expertise and knowledge to a number of collaborative events that bring industry experts together to share best practices, practical knowledge and experiences. These included:

- International Pipeline Conference;
- Banff Pipeline Workshop;
- Nunavut Petroleum Workshop;
- Arctic Security Working Group; and,
- International Pipeline Security Forum.

Partnership

In addition to our collaborative work with the MPMO, and the engagement of ENGOs and landowners, we have sought out partnerships that allow us to reduce overlap and work more effectively with other organisations.

For example, in August, we signed a memorandum of understanding (MOU) with the Northwest Territories Water Board (NTWB) to address the overlap of regulations regarding down-hole injection of drilling related fluids.

The value of this MOU is that it strengthens the partnership between us and one of our fellow boards in the North, and removes unnecessary overlap in regulation. This MOU, when signed, attracted interest from other northern boards interested in forming similar alliances to achieve some of the outcomes envisioned in the federal government's Northern Regulatory Improvement Initiative that was launched in November 2007.

In December we signed a MOU with the Environmental Assessment Office of British Columbia to coordinate the environmental assessment of projects in that province that are subject to the NEB Act.

In addition, we signed MOUs with the First Nations Tax Commission and the Canada-Nova Scotia Offshore Petroleum Board.

In April 2008 we joined eight other federal and territorial agencies in signing a revised Northwest Territories/Nunavut Spills Working Agreement. The Agreement coordinates procedures for spill investigation and monitoring by establishing and maintaining:

- An effective spill notification system;
- A clearly understood division of responsibilities relating to the investigation and monitoring of spills;
- An information dissemination system; and,
- Procedures for each agency responsible for investigating and monitoring spills.

We are also a member of the NWT Board Forum which includes land use planning boards, land and water boards and environmental assessment agencies. Our participation in this forum provides an opportunity for the Board both to share and gain knowledge about energy regulation and the North. Through the NWT Board Forum we are able to be better connected to what is going on in the North, know what people are talking about, and what is being planned for the future.

In partnership with the Geological Survey of Canada, the Northwest Territories Geoscience Office and the Nunavut Minerals and Petroleum Resources Branch, we developed a public information database on the identification of underground formation tops on Frontier lands. The online database went live in August 2008, and provides industry with a listing of formation names and depth by well location.

We have an agreement with the two other principal federal energy regulators in North America, the Comisión Reguladora de Energía of Mexico and the US Federal Energy Regulatory Commission (FERC), to share information on regulatory approaches and energy developments in North America, and to look for compatible regulatory approaches while maintaining our independent mandates.

Additionally, we are the federal representative for Canadian interests with the North American Electric Reliability Corporation (NERC). NERC is an international organization whose mission is to ensure the reliability of the bulk power system in North America. It is subject to oversight by FERC and governmental authorities in Canada.

Because of our role with NERC, the Board decided to pursue amendments to our *Electricity Regulations* so as to include mandatory reliability standards on the International Power Lines (IPL) that fall within its jurisdiction. The move is designed to facilitate the reliable operation of the IPLs by aligning our reliability standards with provincially-regulated systems.

In 2008 we partnered with Environment Canada and Natural Resources Canada in the *Joint Data Initiative* to examine energy data in Canada. As a result of this project, Canadian energy data used by these federal departments is more consistent and working relationships between departments have been created to continuously improve information available to Canadians.

To improve our ability to forecast energy demand, we also participated in Transport Canada's National Commodity Flow, Trade and Transportation Forecasts project. The objective of this project is to develop short, medium and long-term freight, trade and traffic forecasts.

Canadian Energy Markets

Oil and Natural Gas

In addition to our role as a regulator, we are required to review and report on energy matters. We report to the public on specific energy issues and monitor current and future supplies of Canada's major energy commodities. This information is produced in a number of different reports, and is shared with the Canadian public on our website.

2008 was remarkable because of volatile energy markets, making it a particularly difficult year in which to analyse market trends.

The price of crude rose from US$99 per barrel in January, to a record high of $147 per barrel in July, before going as low as $30 per barrel in December driven down by a combination of factors including a deepening global financial crisis, falling demand and a worsening U.S. and global economic outlook (see Figure 5).

Similarly, natural gas which was trading at around $8 /MMBtu in January, spiked to over $13/MMBtu in July, and by the end of December was trading at $6/MMBtu (see Figure 6).

Given the 2008 market conditions, we saw an increased demand for reliable, timely and easily accessible information on Canadian energy. We publish a number of reports on energy issues throughout the year. For example, the annual *Canadian Energy Overview* provided a comprehensive overview of the previous year's energy activities and trends, including energy demand, pricing and export and import data for the main energy commodities such as oil, natural gas, natural gas liquids and electricity.

The summer and winter *Energy Outlooks* provide our independent analysis and projections on supply, demand, and prices for a six month period, while *Energy Pricing Information* provides Canadians with information on Canadian energy markets. We also produced quarterly reports on natural gas exports to the United States, comparing 2008 to the previous two years, both for volumes and prices.

The annual *Short-term Canadian Natural Gas Deliverability* report provided a two-year outlook on natural gas production based on observed trends and market conditions. The 2008 report highlighted the potential for increased production of shale and

Figure 5:
2007-2008 Crude Oil Monthly Prices

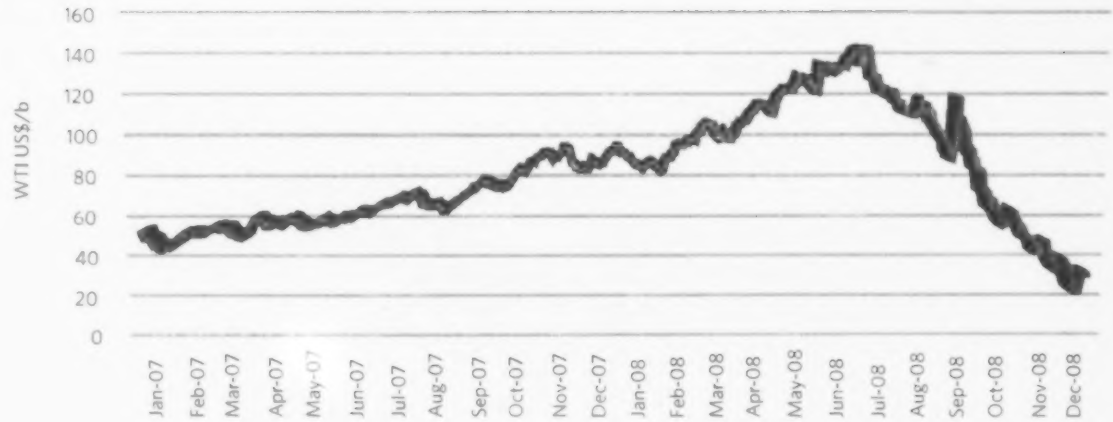
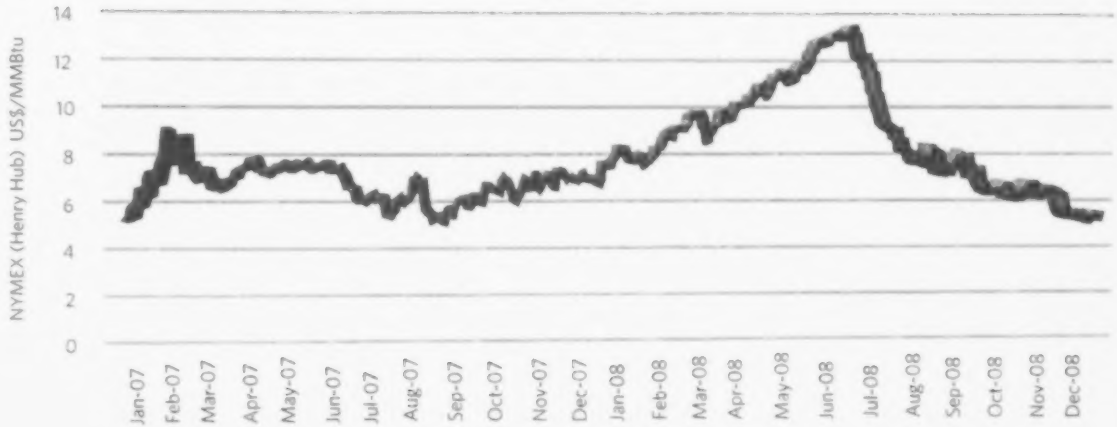


Figure 6:
2007-2008 Natural Gas Monthly Prices



unconventional gas plays in northeastern B.C. Based on our analysis, we post annual projections of oil and gas production on our website, and update these values monthly with actual gas and oil production volumes.

In partnership with the Saskatchewan Ministry of Energy and Resources, the Board released *Saskatchewan Ultimate Potential for Conventional Natural Gas*, which provided information on the undiscovered conventional natural gas resources remaining in the Saskatchewan portion of the Western Canadian Sedimentary Basin (WCSB). The report estimated Saskatchewan's ultimate potential of marketable conventional natural gas resources to be 10.6 Trillion cubic feet (Tcf), a 42 per cent increase over our previous estimate.

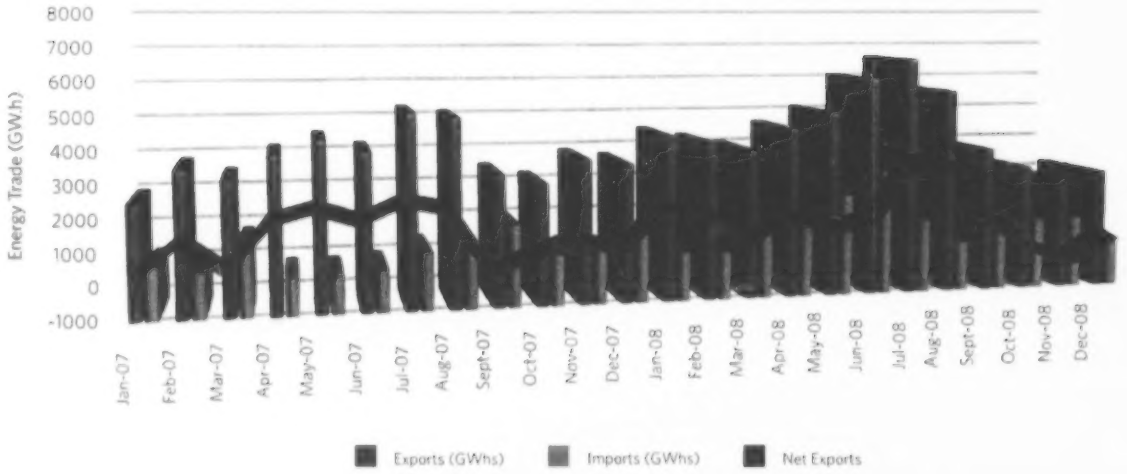
In 2008 we supplemented these reports with a series of Energy Briefing Notes which covered a number of topics, such as: *Coal-Fired Power Generation, Natural Gas Supply Costs in Western Canada*, and *Energy Demand*.

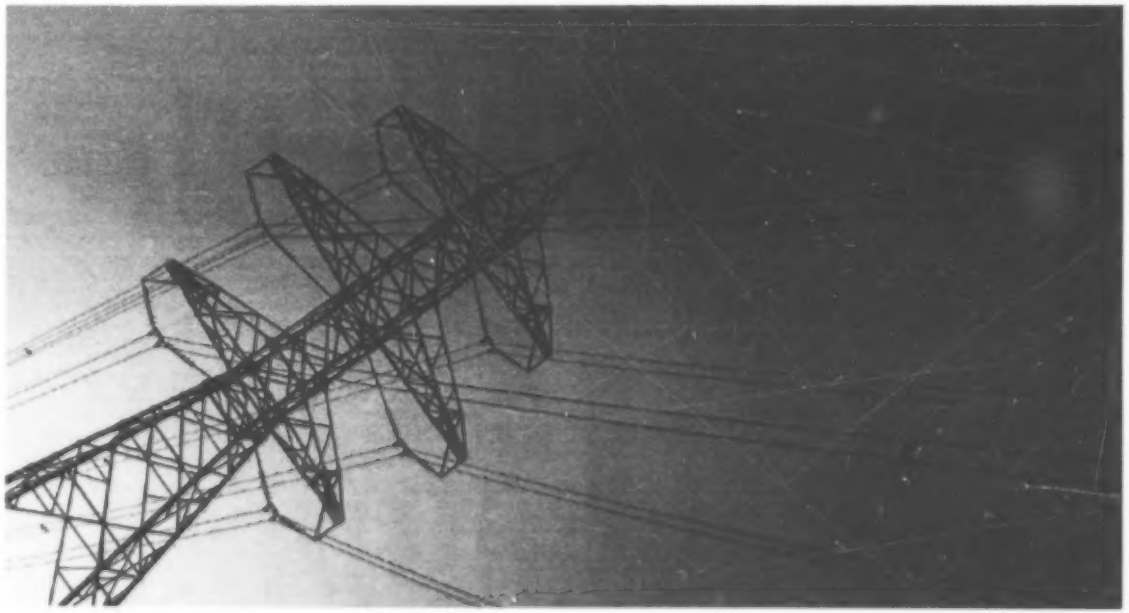
Electricity

Exporting electricity from Canada requires authorization from the Board. In 2008, we made improvements to the electricity export application process to make it more efficient and effective. Applicants can now access an electronic *Electricity Export Application Form*, an electronic *Filing Guide for Applications*, and a customized *Emergency Export Permit* on the NEB website. These tools will help clarify the Board's regulatory processes, and should reduce application processing times by assisting applicants to submit complete applications.

We also collect Canadian electricity export statistics on a monthly basis. Figure 7 shows electricity exports, imports, and net trade over the last three years. In 2008, electricity exports saw record highs. The main reason for this increase was high water levels, resulting in abundant hydro-electricity. *Statistics for Electricity Exports and Imports* are published on our website on a monthly basis.

Figure 7:
2007-2008 Monthly Canadian Electricity Exports and Imports





NEB People and Culture

Our Board includes seven permanent and four temporary Members, supported by a staff of approximately 340. Our staff reflect a broad range of expertise required to fulfill our mandate.

Our people are our greatest asset at the NEB. We continued to be challenged by a tight labour market in 2008, but still managed to recruit over 60 new graduates and experienced staff in all disciplines. While competition for highly skilled individuals continued within the energy sector, we saw our attrition rate decrease from nearly 17 per cent in 2007 to just over 13 per cent in 2008.

In order to stay competitive the NEB continued to expand and enhance employee programs for both new and existing staff.

With so many new staff joining the NEB in 2008, we enhanced our employee on-boarding program which provides new staff with a solid foundation of information about NEB programs and operations. With more frequent orientation sessions, and an Employee Handbook to guide them, new employees are given the information they need to feel welcome and at home at the NEB.

We continued to invest in new learning opportunities. We expanded our learning framework to include e-learning, which will help ensure that operational needs for knowledge and skills are met in a timely manner.

Our Awards and Recognition program was revamped to be more responsive to both the interests of employees and leaders alike. An Instant Award and Chair's Award were introduced to provide more opportunities to recognize the excellent work achieved by NEB employees.

In 2008, we had a number of staff take advantage of a new telework policy which allows employees to work at locations other than the NEB office in Calgary when operational requirements allow. Telework arrangements can range from ad hoc periods of time (i.e. one or two days as required to finish a project or paper), to long term full-time arrangements.

Business as Usual

The ongoing success of NEB programs would not be possible without the dedicated individuals who provide corporate and support services to all parts of the NEB. They enable the rest of the organization to complete their work in an effective manner.

For example, our human resources team has implemented a number of training programs to ensure staff have the necessary training to help us meet our mandate. Our business and technology group provides audio visual support to NEB hearings all across the country. They also assist with the audio webcast of NEB hearings so that anyone with an internet connection can listen to the proceedings. In addition, as a federal agency we are required to provide services and information to the public in both official languages. In 2008, our information and document services group translated more than 2 000 documents.

It goes without saying that all of our work at the NEB relies on high quality Information Management Systems. In 2008 we dedicated additional resources to our Information Management Renewal (IMR) project. This project introduced tools and best practices to more effectively manage the information of the NEB on behalf of all Canadians.

Access to Board information will also be improved as a result of IMR. When information is effectively managed, more information can be made accessible in a timely fashion.

"My wife and I were looking for a lifestyle change and wanted to move to a small town by the ocean while remaining involved in our translation work as much as we could. Teleworking means that I can still contribute to the success of an excellent organization, and that the NEB can continue to take advantage of my translation and related skills, including mentoring and coaching. And of course the commute is much shorter and I think I make better coffee than Starbucks. Do I hear the words win-win?"

Marc Thibaudeau, Tele-working from Lunenburg, Nova Scotia

NEB Awards in 2008

- The NEB received the Award of Excellence, Public Sector, at the United Way's annual Spirit of Gold Awards in recognition of the Board's outstanding contribution to the 2007 United Way/ Healthpartners campaign.
- We were recognized by a leading national publication as one of Canada's Top 100 Employers and Alberta's Top 40 Employers, primarily for our health and family benefits, our investment in training and skills development, community involvement, work environment and communication, and financial benefits and compensation, including vacation and personal time off. We were also recognized as one of Canada's Top 20 Family-friendly Employers, a validation of our efforts to encourage work life balance and part-time working arrangements.
- For the second year in a row, a Canadian magazine awarded the NEB with the best annual report submitted by Canadian public service organizations. This award means even more considering that the Annual Report is written and produced in-house by NEB employees
- The Canadian Public Service Commission recognised the NEB as a top performer among small government agencies for our hiring practices.

We sponsored Le Collectif Franco to promote French-Canadian culture within the NEB as well as the use and retention of the French language among our employees. The group also encourages networking and cultural activities in French in Calgary, an asset to French-speaking employees new to the city.

Each year a dedicated group of individuals coordinates the charitable United Way/ Healthpartners campaign. In 2008, individual contributions increased by nearly 20 per cent, raising $72 164 for the United Way/Healthpartners campaign.

NEB staff organised an Office Olympics event to help raise funds for this year's Government of Canada Workplace Charitable Campaign (GCWCC). Olympic Gold Medalist Michelle Cameron was a guest judge at the event.

The NEB library maintains a collection of NEB publications and hearing documents as well as reference materials, books and periodicals related to the NEB's mandate. This collection allows Canadians the opportunity to access easy-to-understand, timely and relevant information.

A Wealth of Experience

Complete biographies for current members can be found on our website under Who we are > Organization and Structure.

Gaétan Caron
Chair and CEO

Sheila Leggett
Vice-Chair

Members

Rowland Harrison, Q.C.

John S. Bulger
Retired November 2008

Roland George

Kenneth Bateman

Georgette Habib

Strater Crowfoot
Resigned May 2008

Lyne Mercier
Appointed December 2008

Temporary Members

Kenneth Vollman
Former NEB Chair,
Presiding Member of Mackenzie Gas Project Hearing GH-1-2004

David Hamilton

Sara Jane Snook
Appointed December 2008

Bob Vergette
Appointed December 2008

The Board is committed to ensuring that companies work with affected land owners, Aboriginal groups and other stakeholders.

The Southern Lights project broke new ground as the first application to the NEB for a pipeline to transport diluent - lighter hydrocarbons used to dilute bitumen and heavy oil so they can flow through pipelines.

The Board approved the application in February 2008. The Board's approval was due in part to the applicant's demonstrated commitment to work with and carefully track the complaints of affected land owners and Aboriginal groups. The Board determined that this would minimize negative impacts of construction and operation. In addition, the Board felt that the use of existing Enbridge sites and right-of-ways, urban construction plans, and a Heritage Resource Construction Plan all helped to minimize potential impacts. The NEB required the company to develop a workforce housing plan and a worker code of conduct to reduce local accommodation burdens during the construction phase.

APPENDIX A: Hearing Decisions Issued in 2008

Raise The M&NP Interruptible (IT) Floor Price

Maritimes & Northeast Pipeline Management Ltd.(M&NP)

LENGTH: N/A
COMMODITY: N/A
APPLICATION RECEIVED: 9 November 2007
HEARING: Written hearing began 9 November 2007
DECISION RELEASED: 7 February 2008

Southern Lights Project

Enbridge Southern Lights GP on behalf of Enbridge Southern Lights LP and Enbridge Pipelines Inc

LENGTH: 288 km - Light Sour Cruue Oil Pipeline; Line 2 Modifications; Line 13 Reversal
COMMODITY: Oil/Diluent
APPLICATION RECEIVED: 9 March 2007
HEARING: August and October 2007 for six days
DECISION RELEASED: 19 February 2008

Alberta Clipper Expansion Project

Enbridge Pipelines Inc.

LENGTH: 1 078 km
COMMODITY: Oil
APPLICATION RECEIVED: 30 May 2007
HEARING: November 2007 for five days
DECISION RELEASED: 22 February 2008

Hélène Campbell - TransCanada PipeLines - Relocation Right Of Entry

LENGTH: Right of Entry 1 245 m
COMMODITY: Gas
APPLICATION RECEIVED: 29 March 2007
HEARING: January 2008 for three days
DECISION RELEASED: 13 March 2008

Line 4 Extension Project

Enbridge Pipelines Inc.

LENGTH: 180 km
COMMODITY: Oil
APPLICATION RECEIVED: 29 June 2007
HEARING: January 2008 for one day
DECISION RELEASED: 15 April 2008

Brunswick Pipeline Project Detailed Route MH-3-2007

Emera Brunswick Pipeline Company Ltd.

LENGTH: Various lengths
COMMODITY: Gas
APPLICATIONS RECEIVED: 12 July 2007 and 7 August 2007
HEARING: January 2008 for four days
DECISION RELEASED: Compilation of decisions released 13 May 2008

Keystone Cushing Expansion Project

TransCanada Keystone Pipeline GP Limited

LENGTH: expansion of facilities
COMMODITY: Gas
APPLICATION RECEIVED: 23 November 2007
HEARING: April 2008 for one day
DECISION RELEASED: 17 July 2008

Brunswick Pipeline Project Detailed Route MH-1-2008

Emera Brunswick Pipeline Company Ltd.

LENGTH: Various lengths
COMMODITY: Gas
APPLICATION RECEIVED: 19 March 2008 and 16 April 2008
HEARING: July 2008 for one day
DECISION RELEASED: 1 August 2008

LNG Import/Gas Export

Repsol Energy Canada Ltd.

LENGTH: n/a
COMMODITY: LNG/Gas
APPLICATION RECEIVED: 27 December 2007
HEARING: May 2008 for two days
DECISION RELEASED: 5 September 2008

Proposed 2008 Tolls

Alliance Pipeline Ltd.

LENGTH: n/a
COMMODITY: n/a
APPLICATION RECEIVED: 31 October 2007; Objection received 12 December 2007
HEARING: written hearing began 18 April 2008
DECISION RELEASED: 23 September 2008

Revised Capacity Allocation

Trans Mountain Pipeline Inc.

LENGTH: n/a
COMMODITY: Oil
APPLICATION RECEIVED: 14 March 2008
HEARING: September 2008 for one day
DECISION RELEASED: 10 October 2008

South Peace Pipeline Project

Westcoast Energy Inc., carrying on business as Spectra Energy Transmission

LENGTH: 92 km
COMMODITY: Sour Gas
APPLICATION RECEIVED: 27 February 2008
HEARING: August 2008 for one day
DECISION RELEASED: 18 November 2008

APPENDIX B: Hearings in Progress as of 31 December 2008

Proposed Mackenzie Gas Project

Imperial Oil Resources Ventures Limited (Imperial), Mackenzie Valley Aboriginal Pipeline Limited Partnership, ConocoPhillips (North) Limited, Shell Canada Limited and ExxonMobil Canada Proper

LENGTH: n/a
COMMODITY: Gas
APPLICATION RECEIVED: 8 October 2004
HEARING: currently adjourned

2007 And 2008 Cost Of Capital Application

Trans Quebec & Maritimes Pipeline Inc.

LENGTH: n/a
COMMODITY: Gas
APPLICATION RECEIVED: December 2007
HEARING: September 2008 for 15 days

Review Of Yukon Pipeline Abandonment Order

Yukon Pipelines Limited

LENGTH: n/a
COMMODITY: Oil
APPLICATION RECEIVED: n/a
HEARING: Written hearing began 2 October 2008

Redwillow Pipeline Project

SemCAMS Redwillow ULC

LENGTH: 149.7 km
COMMODITY: Sour Gas
APPLICATION RECEIVED: 7 December 2007
HEARING: October 2008 for four days

Transcanada Alberta System Application - Jurisdiction Transfer

TransCanada Pipelines Ltd.

LENGTH: 23,500 km
COMMODITY: Gas
APPLICATION RECEIVED: 17 June 2008
HEARING: November 2008 for nine days

APPENDIX C: Challenges To The Board's Decisions

Alliance Pipeline Ltd. Application for Facilities and Toll methodology - GHW-1-2007

The Canadian Association of Petroleum Producers (CAPP) filed an application for a review of the GHW-1-2007 decision pursuant to section 21 of the NEB Act as well as an application to stay the decision. CAPP also filed an application for leave to appeal with the FCA. The FCA denied the application for leave to appeal on 23 November 2007. The NEB denied the application for a section 21 review by decision dated December 2007, released 10 January 2008.

Mackenzie Gas Project - GH-1-2004

On 2 October 2006, the Mackenzie Explorer Group filed a Notice of Appeal of the Board's decision of 10 July 2007 dismissing the request for an order that Part IV of the NEB Act applied to the Mackenzie Gathering System. The FCA dismissed the appeal on 22 April 2008.

Enbridge (Westspur) Inc. Alida to Cromer Capacity Expansion Project - OH-2-2007

At the request of the Standing Buffalo Dakota First Nation (SBDFN), the NEB reviewed and upheld its decision to approve the Enbridge (Westspur) Inc. Alida to Cromer Capacity Expansion (ACCE) project. The SBDFN applied to the FCA for leave to appeal and for judicial review. The FCA dismissed the leave to appeal in 2007 and following a hearing, dismissed the application for judicial review on 23 June 2008.

Alberta Clipper Project - OH-4-2007

On 24 July 2008, the Sweetgrass First Nation and Moosomin First Nation filed an application for leave to appeal the OH-4-2007 decision, naming the NEB, Enbridge Pipelines Inc., Attorney General of Canada and others as respondents. The FCA granted the leave 19 September 2008. The Notice of Appeal was filed 29 September 2008, on grounds relating to Aboriginal consultation issues. The appeal has not been heard.

On 20 March 2008, the SBDFN filed applications with the FCA for judicial review and leave to appeal of the Board's OH-4-2007 decision. The FCA dismissed the judicial review application on 27 July 2008 but granted leave to appeal on 19 September 2008. That appeal has not yet been heard.

On 10 June 2008, members of the Treaty One First Nations filed an application with the Federal Court for judicial review of the Governor in Council's decision to approve the Board's OH-4-2007 decision. No relief is currently being sought against the NEB, however the NEB remains a party in the action.

Emera Brunswick Pipeline Project - MH-3-2007

On 2 April 2008, the Emera Brunswick Pipeline Ltd sought leave to appeal the NEB decision in the MH-3-2007 detailed route hearing of Galbraith Construction Ltd. and Galbraith Equipment Co. Ltd. The proceeding was stayed until after release of the Reasons for Decision and subsequently until after release of the Board's decision on a second detailed route hearing for those lands. The appeal was discontinued on 22 September 2008 after the Board released its Reasons for Decision in MH-1-2008, approving a new route for the pipeline.

Keystone Pipeline Project - OH-1-2007

On 12 October 2007 the SBDFN asked the Board to review its decision to approve the TransCanada Keystone Pipeline Project. The Board denied the review on 13 February 2008, finding that no doubt was raised as to the correctness of the OH-1-2007 decision.

The SBDFN filed applications to the FCA for judicial review of, and leave to appeal the Board's decisions on OH-1-2007. On 28 July 2008 the SBDFN discontinued its judicial review application. On 19 September 2008, the FCA granted leave to appeal and on 22 October 2008 SBDFN filed its Notice of Appeal. The appeal has not yet been heard.

On 8 February 2008, members of the Treaty One First Nations filed an application with the Federal Court for judicial review of the Governor in Council's decision to approve the Board's OH-1-2007 decision. No relief is currently being sought against the NEB; however the NEB remains a party in the action.

Southern Lights Project - OH-3-2007

On 18 March 2008, the SBDFN filed an application for Judicial Review of the OH-3-2007 decision on 18 March 2008 approving Enbridge's Southern Lights Pipeline. The FCA dismissed the application on 27 July 2008.

The SBDFN also filed an application for leave to appeal which the FCA granted on 19 September 2008. The Notice of Appeal was filed 22 October 2008 and the appeal has not yet been heard.

On 9 June 2008, members of the Treaty One First Nations filed an application with the Federal Court for judicial review of the Governor in Council's decision to approve the Board's OH-3-2007 decision. No relief is currently being sought against the NEB; however the NEB remains a party in the action.

APPENDIX D-1: Oil Pipeline Certificates

Certificates Issued During 2008 Approving Oil Pipeline Facilities Including Pipeline Construction Exceeding 40 Kilometres in Length

Enbridge Southern Lights GP
CERTIFICATE NUMBER: OC-53
DATE ISSUED: 15 May 2008
DESCRIPTION: OH-3-2007, Southern Lights Pipeline Project
ESTIMATED COST ($): N/A

Enbridge Pipelines Inc.
CERTIFICATE NUMBER: OC-54
DATE ISSUED: 15 May 2008
DESCRIPTION: OH-4-2007, Alberta Clipper Expansion Project
ESTIMATED COST ($): N/A

Enbridge Pipelines Inc.
CERTIFICATE NUMBER: OC-55
DATE ISSUED: 12 June 2008
DESCRIPTION: OH-5-2007, Line 4 Extension Project
ESTIMATED COST ($): N/A

APPENDIX D-2: Oil Pipeline Orders

Orders Issued During 2008 Approving Oil Pipeline Facilities Including Pipeline Construction Not Exceeding 40 Kilometres in Length

Enbridge Pipelines (Westspur) Inc.
ORDER NUMBER: XO-E103-01-2008
DATE ISSUED: 31 January 2008
DESCRIPTION: Construct and operate a natural gas liquids flare stack, flare line and associated facilities on a new lease site at Enbridge Westspur's Cromer Terminal
ESTIMATED COST ($): 519,000

TransMountain Pipeline Inc. (TMI)
ORDER NUMBER: XO-T246-04-2008
DATE ISSUED: 06 March 2008
DESCRIPTION: Construct and operate 13 crude oil tanks and associated facilities at TMI's Edmonton Terminal
ESTIMATED COST ($): 244,000,000

Enbridge Pipelines Inc.
ORDER NUMBER: XO-E101-05-2008
DATE ISSUED: 16 April 2008
DESCRIPTION: Deactivation of existing pipe segments
ESTIMATED COST ($): N/A

TransCanada Keystone Pipeline GP Ltd. (Keystone)
ORDER NUMBER: XO-T241-08-2008
DATE ISSUED: 12 December 2008
DESCRIPTION: To construct and operate the Hardisty East Interconnecting Facilities
ESTIMATED COST ($): 46,000,000

APPENDIX E-1: Gas Pipeline Certificates

Certificates Issued During 2008 Approving the Construction of Gas Pipeline Facilities Exceeding 40 Kilometres in Length

There were no certificates issued for pipelines exceeding 40 km.

APPENDIX E-2: Gas Pipeline Orders

Orders Issued During 2008 Approving the Construction of Gas Pipeline Facilities Not Exceeding 40 Kilometres in Length

Burlington Resources Ltd.

ORDER NUMBER: XG-B105-01-2008
DATE ISSUED: 16 January 2008
DESCRIPTION: Construction of the Chinook Ridge 4 Inch Gathering Pipeline
ESTIMATED COST ($): 1,230,000

Murphy Oil Company Ltd.

ORDER NUMBER: XG-M267-03-2008
DATE ISSUED: 21 January 2008
DESCRIPTION: Construction of the Tupper Pipeline
ESTIMATED COST ($): 23,000,000

WestCoast Energy Inc.

ORDER NUMBER: XG-W102-03-2008
DATE ISSUED: 18 April 2008
DESCRIPTION: Construct and operate certain proposed modifications that will provide Westcoast with the flexibility to receive gas at the southeast side of Westcoast's gas processing plant
ESTIMATED COST ($): 19,000,000

Spectra Energy Transmission

ORDER NUMBER: XG-W102-04-2008
DATE ISSUED: 12 June 2008
DESCRIPTION: Construct and operate the Grizzly Pipeline Loop
ESTIMATED COST ($): 26,700,000

ARC Resources Ltd.

ORDER NUMBER: XG-A083-05-2008
DATE ISSUED: 14 August 2008
DESCRIPTION: Construct and operate the Saddle Hills Pipeline Loop
ESTIMATED COST ($): 6,100,000

TransCanada PipeLines Ltd.

ORDER NUMBER: XG-T211-06-2008
DATE ISSUED: 29 October 2008
DESCRIPTION: Construct and Operate the Petawawa sales meter station
ESTIMATED COST ($): 2,780,000

The Board worked in cooperation with Parks Canada, to ensure regulatory compliance for the TMX-Anchor Loop Pipeline Project which traversed a national park.

Construction of the TMX Anchor Loop Project was completed in 2008. This project, approved by the NEB in 2006, traversed Jasper National Park and Mount Robson Provincial Park. Throughout all phases of the project NEB staff worked closely with Parks Canada and the company to ensure the project's Environmental Protection Plan was properly implemented. In 2008, NEB staff visited the site on several occasions to have a closer look at the challenges of pipeline construction in this difficult terrain, to assess the reclamation success, and to personally meet with the Foothill Ojibway, a First Nation directly affected by the project.

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